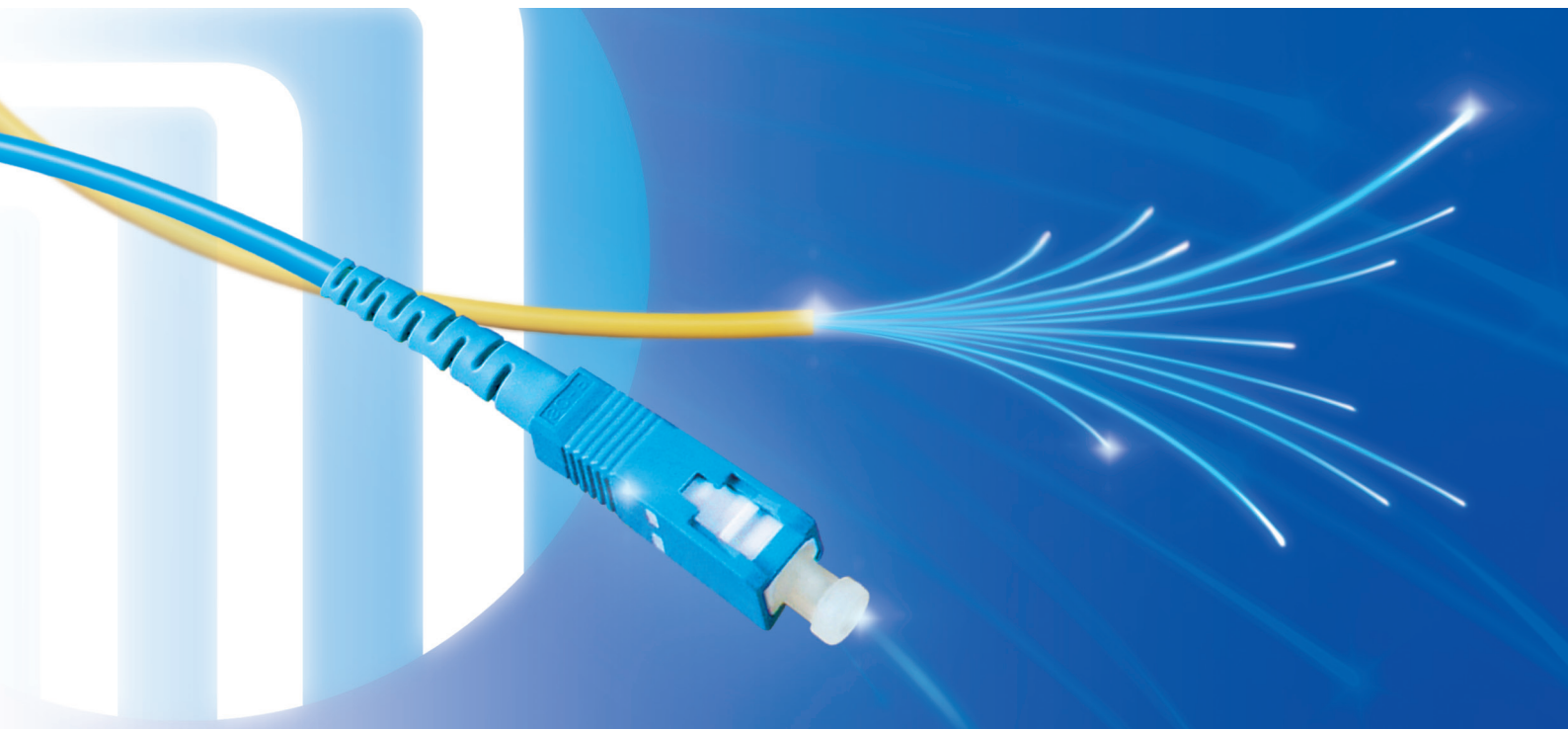




中國光纖網絡系統集團有限公司\*  
China Fiber Optic Network System Group Ltd.

*(Incorporated in the Cayman Islands with limited liability)*

Stock code: 3777



## GLOBAL OFFERING

*Sole Global Coordinator, Sole Sponsor, Sole Bookrunner and Sole Lead Manager*



**BOC INTERNATIONAL**

## IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



# 中國光纖網絡系統集團有限公司\*

## CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

### GLOBAL OFFERING

**Number of Offer Shares under the Global Offering:** 406,000,000 Shares, comprising 300,000,000 new Shares and 106,000,000 Sale Shares (subject to adjustment and the Over-allotment Option)

**Number of Hong Kong Offer Shares:** 40,600,000 Shares (subject to adjustment)

**Number of International Offer Shares:** 365,400,000 Shares, comprising 259,400,000 new Shares and 106,000,000 Sale Shares (subject to adjustment and the Over-allotment Option)

**Maximum Offer Price:** HK\$1.60 per Offer Share, plus brokerage fee of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

**Nominal value:** US\$0.001 per Share

**Stock code:** 3777

Sole Global Coordinator, Sole Sponsor, Sole Bookrunner and Sole Lead Manager



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, with the documents specified in the section headed "Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection" in this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, June 21, 2011 and, in any event, not later than Friday, June 24, 2011. The Offer Price will not be more than HK\$1.60 and is currently expected to be not less than HK\$1.20. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$1.60 for each Offer Share together with a brokerage of 1%, an SFC transaction levy of 0.003% and a Stock Exchange trading fee of 0.005%.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), may, with consent of our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder), reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$1.20 to HK\$1.60 per Offer Share) at any time at or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such case, notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. Such notice will also be available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.chinafiber optic.com](http://www.chinafiber optic.com). If applications for Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offer, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) are unable to reach an agreement on the Offer Price by Friday, June 24, 2011, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers to subscribe for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on the day on which trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement under the U.S. Securities Act.

\* For identification purpose only

---

## EXPECTED TIMETABLE<sup>(1)</sup>

---

Latest time to complete <b>electronic</b> applications under the <b>White Form eIPO</b> service through the designated website <b>www.eipo.com.hk</b> <sup>(2)</sup> . . . . .	11:30 a.m. on Tuesday, June 21, 2011
Application lists of the Hong Kong Public Offer open <sup>(3)</sup> . . .	11:45 a.m. on Tuesday, June 21, 2011
Latest time to complete payment of <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . .	12:00 noon on Tuesday, June 21, 2011
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms . . . . .	12:00 noon on Tuesday, June 21, 2011
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> . . . . .	12:00 noon on Tuesday, June 21, 2011
Application lists close . . . . .	12:00 noon on Tuesday, June 21, 2011
Expected Price Determination Date <sup>(5)</sup> . . . . .	Tuesday, June 21, 2011
Announcement of: the Offer Price; the indication of the level of interest in the International Offering; the level of applications under the Hong Kong Public Offer; and the basis of allotment of the Hong Kong Offer Shares, to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before . . .	Monday, June 27, 2011
Announcement of results of allotment in the Hong Kong Public Offer (with successful applicants' identification document numbers, where applicable) available through a variety of channels, including the websites of the Stock Exchange at <b>www.hkexnews.hk</b> and our company at <b>www.chinafiber optic.com</b> , as described in the paragraph headed "How to Apply for Hong Kong Offer Shares – Results of Allocations" in this prospectus . . . . .	Monday, June 27, 2011
Results of allocations in the Hong Kong Public Offer will be available at <b>www.iporesults.com.hk</b> with a "search by ID" function . . . . .	Monday, June 27, 2011
Dispatch of Share certificates/White Form e-Refund payment instructions/refund cheques (if applicable) on or before <sup>(6)</sup> . . . . .	Monday, June 27, 2011
Dealings in Shares on the Stock Exchange expected to commence on . . . . .	Tuesday, June 28, 2011

---

## EXPECTED TIMETABLE<sup>(1)</sup>

---

*Notes:*

- (1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus. If there is any change in the above expected timetable, we will issue a separate announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on our website at [www.chinafiber optic.com](http://www.chinafiber optic.com).
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 21, 2011, the application lists will not open on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares – When to Apply for the Hong Kong Offer Shares – Effect of bad weather conditions on the opening of the application lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – How to Apply by Giving Electronic Application Instructions to HKSCC” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Tuesday, June 21, 2011, and in any event will not be later than Friday, June 24, 2011. If, for any reason, the Offer Price is not agreed on or before Friday, June 24, 2011, the Global Offering will not proceed and will lapse.
- (6) Share certificates are expected to be issued on Monday, June 27, 2011. Share certificates will only become valid certificates of title if the Hong Kong Public Offer has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement has been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m. on the Listing Date. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

e-Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly or partially successful applications if the final Offer Price is less than the price payable per Offer Share on application. If you apply through the **White Form eIPO** service by paying the application monies through a single bank account, you may have e-Refund payment instructions (if any) dispatched to the application payment account on Monday, June 27, 2011. If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on Monday, June 27, 2011, by ordinary post and at your own risk. Part of the Hong Kong identity card number or passport number of the applicant, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of the Hong Kong identity card number or the passport number of an applicant before cashing the refund cheque. Inaccurate completion of the Hong Kong identity card number or the passport number of an applicant may lead to delay in encashment of or may invalidate the refund cheque.

You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus for details relating to the structure of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable including, among other things, applicable conditions, the effect of bad weather, and the dispatch of refund cheques and Share certificates.

**We will publish an announcement in case there is any change in the expected timetable of the Hong Kong Public Offer as described above.**

---

## CONTENTS

---

*You should rely only on the information contained in this prospectus to make your investment decision.*

*We have not authorized anyone to provide you with different information.*

*Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, the Selling Shareholders, any of their respective directors or any other person or party involved in the Global Offering.*

	Page
EXPECTED TIMETABLE .....	i
CONTENTS .....	iii
SUMMARY .....	1
DEFINITIONS .....	17
GLOSSARY OF TECHNICAL TERMS .....	27
WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES .....	29
FORWARD-LOOKING STATEMENTS .....	30
RISK FACTORS .....	31
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING .....	48
DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING .....	52
CORPORATE INFORMATION .....	56
INDUSTRY OVERVIEW .....	58
REGULATIONS .....	68
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE .....	77
BUSINESS .....	92
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS .....	134
DIRECTORS AND SENIOR MANAGEMENT .....	139
SUBSTANTIAL SHAREHOLDERS .....	146
SHARE CAPITAL .....	147
FINANCIAL INFORMATION .....	150
FUTURE PLANS AND USE OF PROCEEDS .....	187
UNDERWRITING .....	189

---

## CONTENTS

---

<b>STRUCTURE OF THE GLOBAL OFFERING</b> .....	199
<b>HOW TO APPLY FOR HONG KONG OFFER SHARES</b> .....	206
<b>APPENDIX I – ACCOUNTANTS’ REPORT</b> .....	I-1
<b>APPENDIX II – UNAUDITED PRO FORMA FINANCIAL INFORMATION</b> .....	II-1
<b>APPENDIX III – PROFIT FORECAST</b> .....	III-1
<b>APPENDIX IV – PROPERTY VALUATION</b> .....	IV-1
<b>APPENDIX V – SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW</b> .....	V-1
<b>APPENDIX VI – STATUTORY AND GENERAL INFORMATION</b> .....	VI-1
<b>APPENDIX VII – DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION</b> .....	VII-1

---

## SUMMARY

---

***This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.***

***There are risks associated with an investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.***

### OVERVIEW

We are one of the largest manufacturers of fiber optic patch cords in China. In terms of sales volume in 2010, we were the largest manufacturer of fiber optic patch cords in China according to CCID. Our fiber optic patch cord sales volume in 2010 accounted for 18.6% of the total sales volume of fiber optic patch cords in China, exceeding the combined market share of our two largest competitors in China. Fiber optic patch cords, one of the key components in fiber optic networks, are sets of devices that consist of one or more soft optical cables with each of their ends connected to one or more connectors. The connectors make connections with optical cables or other equipment in the fiber optic communications network, while the soft optical cables transmit light signals. We produce and sell a comprehensive portfolio of fiber optic patch cords used in a variety of applications in the communications industry. In addition to fiber optic patch cords, we also produce connection and distribution products and equipment room accessories.

We currently target at the fiber optic patch cord market in China by providing customized products and solutions to communications network operators including telecommunications network operators, broadcast and television communications network operators and specialized communications network operators. We have established strong and long-standing business relationships with three of the major telecommunications operators in China. Our direct sales to these three customers in 2010 amounted to RMB442.7 million, representing 52.8% of our total revenue during the same year. Our revenue in 2010 generated from our largest customer, which is among three of the major telecommunications network operators in China, was RMB249.3 million, which represented 29.7% of our total revenue during the same year. Our domestic sales increased significantly since 2009 due primarily to the growing demand for our products, driven by the rapid development of the Chinese communications industry in general and the expansion of the 3G networks in particular. We expect that our domestic sales will continue to constitute a majority of our total sales in the future. We also sell our products to overseas customers in Ireland, New Zealand and Canada during the Track Record Period.

The principal raw materials for producing fiber optic patch cords are soft optical cables and ceramic ferrules. We currently have six fiber optic patch cord production lines and one soft optical cable production line in Shijiazhuang, Hebei Province, with an aggregate designed annual production capacity of 9.0 million sets of fiber optic patch cords and 13,000 kilometers of soft optical cables. Because we have been using this production line primarily for testing and recording technical parameters of various types of soft optical cables we plan to produce with future new production lines, its utilization rate for 2008, 2009 and 2010 was only 0.1%, 2.1% and 3.5%, respectively, of the designed annual production capacity. All of the soft optical cables produced in-house are used to produce our fiber optic patch cords. For the years ended December 31, 2008, 2009 and 2010, 99.8%, 99.9% and 99.8%, respectively, of the total soft optical cables we used for producing fiber optic patch cords were purchased from our suppliers. During the respective periods, our in-house produced soft optical cables constituted 0.2%, 0.1% and 0.2% respectively, of the total soft optical cables are based for producing fiber optic patch cords. We purchase all of the ceramic ferrules required for our production from external suppliers. We plan to build two additional fiber optic patch cord production lines and nine new soft optical cable production lines.



---

## SUMMARY

---

Upon full commencement of operations of these new production lines in 2011, we expect to increase our aggregate annual production capacity to 12 million sets of fiber optic patch cords and 130,000 kilometers of soft optical cables. We believe that the planned increase in our production capacity will help us capitalize on the growing demand for our products in the communications industry in China, driven by the expansion of 3G networks, the adoption of the FTTx technology, the upgrade of the broadcast and television networks and the integration of the three networks – the telecommunications networks, the broadcast and television communications networks and the Internet. According to CCID, three of the major telecommunications network operators in China invested over RMB146 billion on the expansion of 3G networks in 2010. CCID also predicts an annual demand for 16 million to 40 million sets of fiber optic patch cords generated from the adoption of the FTTx technology in the next five years.

We place a strong emphasis on research and development with a focus on the development of innovative and advanced fiber optic patch cord products that suit the evolving market demand. As of the Latest Practicable Date, we had 44 registered patents and 2 pending patent applications in China. Our products and solutions have also received multiple awards and certifications, such as the Special Gold Award of China International Patent and Brand Exhibition for our fiber optic patch cords and closure products in November 2007. In April 2003, the development of our FC fiber optic patch cords, our principal fiber optic patch cord product, was certified as a National Torch Program Project by the PRC Ministry of Science and Technology. We believe that our advanced technologies and products, together with our track record and long-standing customer relationships, enable us to obtain and maintain our qualified supplier status with our existing and potential customers.

We derived a majority of our revenue from our major customers. Our five largest customers together accounted for 78.2%, 63.2% and 76.2%, respectively, of our total revenue for the years ended December 31, 2008, 2009 and 2010, respectively. Our largest customer accounted for 31.6%, 25.5% and 29.7%, respectively, of our total revenue for the corresponding years. We intend to mitigate our reliance on the major customers by continuously broadening our customer base. We expect that our top customers will include more broadcast and television communications network operators, which are mainly provincial broadcast and television communications network operators in China, and specialized communications network operators, such as the railway and highway communications network operators, as their demand for fiber optic patch cords increases in the future. We have established long-term relationships with our major customers, most of which are large and renowned communications network operators in China, and we did not experience any material difficulties during the Track Record Period in recovering trade receivables from those major customers to whom we offered longer credit periods of three months to one year compared with other customers. We did not implement specific measures during the Track Record Period to mitigate the risks associated with the longer credit period that we offered to our major customers. Nonetheless, in view of possible adverse impact on our operating cash flow arising from the provision of longer credit period to our major customers, we have adopted various measures to address the credit risk. We have established a credit evaluation system, under which we rate our customers into different categories and offer credit limits and terms to them based on our credit evaluation. We create and keep a profile for each of our customers in order to review their payment status from time to time. The profiles are subject to update and reevaluation twice a year and are used as the basis for the determination of credit terms we offer to different customers. Furthermore, we maintain a comprehensive evaluation procedure, including review by our finance department and management. In addition, we set conditions for product delivery based on credit evaluation in order to effectively manage the credit risks associated with trade receivables. As a result, our directors believe that our credit risk has been significantly reduced and our directors confirm that it has not materially adversely affected our liquidity by granting longer credit period to our major customers than other customers and our Group has sufficient working capital for the 12 months since the date of this prospectus.

### **Trade Receivable Turnover Days**

Our trade receivable turnover days were 58 days, 135 days and 207 days in 2008, 2009 and 2010 respectively. The trade receivable turnover days increased from 2008 to 2010 because our



---

## SUMMARY

---

sales to three of the major telecommunications network operators in China, who are among our major customers and to which we offered longer credit terms compared with other customers, increased as a percentage of our total revenue from 2008 to 2010. Our directors confirm that we did not experience any delay in payment from these three major telecommunications network operators in China during the Track Record Period that materially adversely affected our business. Our trade receivables aged over 12 months or more were RMB3.1 million, RMB24.1 million and RMB7.3 million as of December 31, 2008, 2009 and 2010, respectively, accounting for 3.4%, 6.2% and 1.3%, respectively, of our total trade receivables as at the respective year end date. Trade receivables turnover days increased from 2009 to 2010 because a large portion of our sales in 2010 were made in the second half of 2010, causing our average trade receivables balance to increase. We made an estimate for doubtful debts when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. There was no impairment provision for receivables during the Track Record Period.

### **Legal Proceedings in the United States – the SEC Lawsuit and the USA Lawsuit**

Pacific Gain Technologies was involved in two legal proceedings in the United States: the SEC Lawsuit and the USA Lawsuit (the “**U.S. Legal Proceedings**”).

#### **The SEC Lawsuit**

Our subsidiary, Pacific Gain Technologies, was named as a relief defendant in a complaint brought by the United States Securities and Exchange Commission (the “**Commission**”) against Rockford Funding Group, LLC in the United States District Court, Southern District of New York (the “**New York Southern District Court**”) in December 2009 (the “**SEC Lawsuit**”). The Commission alleged that Rockford Group made false and misleading claims to investors and failed to use investor funds as promised and had instead, by the end of November 2009, wired at least US\$10.4 million of investor funds to bank accounts in the names of twelve Relief Defendants, located in Latvia and Hong Kong, for purposes completely unrelated to Rockford Group’s purported investment strategies. According to the Commission, Pacific Gain Technologies received funds in the form of two transfers equaling US\$311,007 (the “**Relevant Money**”), wired in October and November 2009 from Rockford Group’s JP Morgan Bank Account to an account in Pacific Gain Technologies’ name in Hong Kong (the “**Relevant Bank Account**”).

As confirmed by our company’s U.S. legal advisor, Lurie & Park, a relief defendant is a defendant which has no legitimate claim or ownership interest in the property that is the subject of the litigation. In the SEC Lawsuit, the Commission argued that Pacific Gain Technologies did not have a legitimate claim to the Relevant Money received from Rockford Group investors and from the Rockford Group. As such, the Commission sought a return of the Relevant Money to the Rockford Group, including the Relevant Money which was wired into the Relevant Bank Account from Pacific Gain Technologies.

A final judgment as to Pacific Gain Technologies was issued on August 6, 2010 (the “**Final Judgment**”). Pacific Gain Technologies was ordered to disgorge US\$311,007, representing profits gained as a result of the conduct alleged in the Commission’s complaint, together with prejudgment interest thereon in the amount of US\$7,951.47, for a total of US\$318,958.47 (the “**Disgorgement Sum**”) within fourteen days of the Final Judgment. The Asset Freeze Order was modified to permit Pacific Gain Technologies to transfer the US\$318,958.47 held pursuant to the Asset Freeze Order to the New York Southern District Court to satisfy Pacific Gain Technologies’ disgorgement obligation. As stated above, the Final Judgment stipulates that, upon satisfaction of Pacific Gain Technologies’ disgorgement obligation listed above, the Asset Freeze Order has no further force or

---

## SUMMARY

---

effect and Pacific Gain Technologies has no further liabilities pursuant to the SEC Lawsuit. Pacific Gain Technologies satisfied the disgorgement obligation and made the payment of the Disgorgement Sum on August 25, 2010. In doing so, Pacific Gain Technologies relinquished all legal and equitable right, title, and interest in such funds. On September 23, 2010, the United States Securities and Exchange Commission issued a Notice of Voluntary Dismissal of Plaintiff's Claim Against Pacific Gain Technologies (the "**Dismissal Notice**"). The Dismissal Notice was filed with the New York Southern District Court and the New York Southern District Court acknowledged the Dismissal Notice on September 24, 2010.

### ***The USA Lawsuit***

On July 9, 2010, the United States Attorney's Office for the Eastern District of New York ("**EDNY**") filed a civil action *in rem* against, among other things, all funds on deposit at Pacific Gain Technologies' bank account in Kowloon, Hong Kong. The action in the United States District Court, Eastern District of New York (Brooklyn) (the "**New York Eastern District Court**") sought to forfeit and condemn to the use and benefit of the United States all funds on deposit in Pacific Gain Technologies' bank account in Hong Kong and contained similar content to the complaint in the SEC Lawsuit (the "**USA Lawsuit**"). EDNY issued a notice of dismissal on November 4, 2010 (the "**EDNY Dismissal Notice**"). The judge in the New York Eastern District Court countersigned the EDNY Dismissal Notice on the same day and the EDNY Dismissal Notice was filed in the same court on November 10, 2010.

In the event that the regulators in the United States, in the course of their investigations against the other parties under the U.S. Legal Proceedings, discover any new incriminating facts involving Pacific Gain Technologies and/or our Group and/or our directors, we and/or our directors may be subject to further investigations and/or proceedings. Mr. Zhao Bing has given us an indemnity in respect of, among other things, all damages, losses and liabilities which might be suffered or incurred by Pacific Gain Technologies or any member of our Group resulting from or in connection with the US Legal Proceedings. As at the Latest Practicable Date, our Group was not aware of any further investigations and/or proceedings in relation to the U.S. Legal Proceedings.

The USA Lawsuit is an *in rem* action, which is a lawsuit filed just against a property, whereas the SEC Lawsuit is an *in personam* action, which is a lawsuit filed against a person/entity and its property. Unlike an action *in personam*, in an *in rem* action, judgment is entered against the property and not its owner.

Since the USA Lawsuit was a civil *in rem* action which did not require service on Pacific Gain Technologies but only upon the entity that is the custodian of the asset (which would be a bank ("**the Relevant Bank**") in this case since it is an account in Pacific Gain Technologies' name in Hong Kong (the "**Relevant Bank Account**") that was at issue), to the best knowledge of our directors of Pacific Gain Technologies EDNY did not attempt service of the complaint in the USA Lawsuit upon Pacific Gain Technologies. Pacific Gain Technologies only learnt about the USA Lawsuit as a result of public searches conducted in November 2010.

For more details, see the sections headed "Risk Factors – Risks Related to our company" and "Business – Legal Compliance and Proceedings."

## SUMMARY

### BUSINESS

We purchased a substantial portion of raw materials and components from our key suppliers. During the years ended December 31, 2008, 2009 and 2010, purchases from our top five raw material suppliers together accounted for 60.2%, 86.7% and 85.6%, respectively, of our total purchases of raw materials for the corresponding years, and the purchase from the largest supplier accounted for 26.0%, 25.4% and 23.2%, respectively, of our total purchases of raw materials for the corresponding years. During the Track Record Period, there was no material fluctuation in the average pricing of our Group's principal raw materials. For each of the years ended December 31, 2008, 2009 and 2010, the average unit cost of ceramic ferrules we purchased was RMB2.1, RMB2.1 and RMB2.1 respectively; and the average cost of soft optical cable we purchased was RMB1.2, RMB1.2 and RMB0.9 per meter respectively. In view of the supply condition as of the Latest Practicable Date, we believe it would not be difficult for us to source raw materials from other suppliers, who are readily available in the market, if our top suppliers stop supplying raw materials to us. We plan to reduce our reliance on key suppliers by increasing our production capacity of the principal raw materials. For example, we plan to build nine new soft optical cable production lines to increase our aggregate annual production capacity to 130,000 kilometers of soft optical cables, which we believe will satisfy a portion of our production requirement for soft optical cables. In addition, if presented with right opportunities, we will consider securing supply of ceramic ferrules through selective acquisitions and strategic alliances.

Our business grew rapidly since we entered into the fiber optic patch cord business in 2001. Our revenue for the years ended December 31, 2008, 2009 and 2010 was RMB334.5 million, RMB645.7 million and RMB838.1 million, respectively, representing a CAGR of 58.3% from 2008 to 2010, and our profit for the years ended December 31, 2008, 2009 and 2010 was RMB86.9 million, RMB139.1 million and RMB181.9 million, respectively, representing a CAGR from 2008 to 2010 of 44.7%.

During the Track Record Period, we produced all the products that we sold to our customers. The table below sets forth sales of our different products both in absolute amounts and as percentages of our total revenue during the Track Record Period:

	Year ended December 31,					
	2008		2009		2010	
Product Category	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Fiber optic patch cords	282,674	84.5%	614,969	95.2%	785,312	93.7%
Connection and distribution products	29,446	8.8%	23,298	3.6%	41,344	4.9%
Equipment room accessories	22,367	6.7%	7,383	1.2%	11,482	1.4%
<b>Total revenue</b>	<b>334,487</b>	<b>100.0%</b>	<b>645,650</b>	<b>100.0%</b>	<b>838,138</b>	<b>100.0%</b>

## SUMMARY

The table below sets forth our domestic and overseas sales, both in absolute amounts and as percentages of our total revenue during the Track Record Period:

	Year ended December 31,					
	2008		2009		2010	
		%		%		%
<i>(RMB in thousands except percentages)</i>						
Domestic sales	107,938	32.3%	540,483	83.7%	642,196	76.6%
Overseas sales						
Ireland	64,731	19.4%	86,006	13.3%	81,334	9.7%
New Zealand	105,588	31.6%	9,768	1.5%	114,608	13.7%
Canada	56,230	16.7%	9,393	1.5%	—	—
	<u>226,549</u>	<u>67.7%</u>	<u>105,167</u>	<u>16.3%</u>	<u>195,942</u>	<u>23.4%</u>
<b>Total</b>	<u><u>334,487</u></u>	<u><u>100.0%</u></u>	<u><u>645,650</u></u>	<u><u>100.0%</u></u>	<u><u>838,138</u></u>	<u><u>100.0%</u></u>

### COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our leading position and success in the fiber optic patch cord market in China:

- Leading manufacturer of fiber optic patch cords in China that is well-positioned to capitalize on the growing market demand for fiber optic patch cords
- Comprehensive and customized products
- Effective production management and extensive quality control
- Market-driven research and development capability
- Strong relationships with our key customers
- Experienced management and highly skilled employees

### STRATEGIES

We intend to maintain and enhance our leading position in the fiber optic patch cord industry in China by implementing the following strategies:

- Increase our production capacity to satisfy the growing demand for our products
- Build on existing relationships with customers and expand customer base
- Enhance our research and development capability to adapt to changing market needs
- Strengthen our competitive position by securing supply of key raw materials

## SUMMARY

### SUMMARY OF FINANCIAL INFORMATION

The following table summarizes our financial information and is extracted from, and is to be read in conjunction with, our audited consolidated financial statements, prepared in accordance with the IFRS, included in the “Accountants’ Report” set forth in Appendix I to this prospectus. The basis of preparation is set forth in Note 2 of Section II of the “Accountants’ Report” set forth in Appendix I to this prospectus.

#### Consolidated Statements of Comprehensive Income Data

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
<b>Revenue</b>	334,487	645,650	838,138
Cost of sales	<u>(175,311)</u>	<u>(445,322)</u>	<u>(570,174)</u>
Gross profit	159,176	200,328	267,964
Other income	1,140	1,447	1,806
Fair value losses on convertible preference shares	(38,488)	–	–
Selling and distribution costs	(12,849)	(5,077)	(7,904)
Administrative expenses	(14,888)	(26,258)	(34,098)
Other operating expenses	(266)	(91)	(56)
Finance costs	<u>(6,945)</u>	<u>(10,967)</u>	<u>(15,851)</u>
<b>Profit before tax</b>	86,880	159,382	211,861
Income tax expense	<u>–</u>	<u>(20,299)</u>	<u>(29,990)</u>
<b>Profit for the year</b>	<u>86,880</u>	<u>139,083</u>	<u>181,871</u>
<b>Other comprehensive income:</b>			
Foreign currency translation	<u>5,761</u>	<u>(162)</u>	<u>(1,355)</u>
Total comprehensive income for the year attributable to owners of our company	<u>92,641</u>	<u>138,921</u>	<u>180,516</u>
Earnings per share attributable to owners of our company:			
Basic	<u>RMB69.92</u>	<u>RMB89.19</u>	<u>RMB116.62</u>
Diluted	<u>RMB69.92</u>	<u>RMB89.19</u>	<u>RMB116.62</u>

## SUMMARY

### Consolidated Statements of Financial Position Data

	December 31,		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	364,523	395,388	471,875
Prepaid land lease payments	697	25,304	26,214
Payments in advance	11,500	–	23,200
Goodwill	15,563	15,563	15,563
Deferred tax assets	–	984	1,219
	<u>392,283</u>	<u>437,239</u>	<u>538,071</u>
Total non-current assets			
<b>CURRENT ASSETS</b>			
Inventories	9,718	10,636	25,028
Trade receivables	92,185	386,463	563,668
Prepayments, deposits and other receivables	570	7,958	10,925
Pledged bank deposits	–	–	1,200
Cash and cash equivalents	37,206	106,125	127,595
	<u>139,679</u>	<u>511,182</u>	<u>728,416</u>
Total current assets			
<b>CURRENT LIABILITIES</b>			
Due to a related party	474	474	–
Trade payables	14,087	63,897	19,546
Other payables and accruals	23,903	103,835	189,400
Tax payable	–	20,396	47,570
Dividend payable	–	–	51,206
Interest-bearing bank loans	80,000	206,000	273,500
	<u>118,464</u>	<u>394,602</u>	<u>581,222</u>
Total current liabilities			
NET CURRENT ASSETS	<u>21,215</u>	<u>116,580</u>	<u>147,194</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>413,498</u>	<u>553,819</u>	<u>685,265</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	4,300	5,700	5,300
Deferred tax liabilities	–	–	2,536
	<u>4,300</u>	<u>5,700</u>	<u>7,836</u>
Total non-current liabilities			
Net assets	<u>409,198</u>	<u>548,119</u>	<u>677,429</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of our company</b>			
Issued capital	12	12	12
Reserves	409,186	548,107	677,417
	<u>409,198</u>	<u>548,119</u>	<u>677,429</u>
Total equity			



## SUMMARY

### Consolidated Statements of Cash Flows

	December 31,		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>			
Profit before tax	86,880	159,382	211,861
Adjustments for:			
Depreciation	15,012	24,352	28,758
Amortization of prepaid land lease payments	18	312	595
Loss on disposal of items of property, plant and equipment	–	64	–
Interest on bank loans	5,108	10,026	14,485
Fair value losses on convertible preference shares	38,488	–	–
Bank interest income	(358)	(144)	(307)
Deferred income released	(400)	(400)	(400)
	<u>144,748</u>	<u>193,592</u>	<u>254,992</u>
Decrease/(increase) in inventories	9,482	(918)	(14,392)
Increase in trade receivables	(78,780)	(294,278)	(177,205)
Decrease/(increase) in prepayments, deposits and other receivables	18,803	(7,388)	(2,967)
Increase/(decrease) in trade payables	6,663	49,810	(44,351)
Increase in other payables and accruals	6,086	81,218	92,121
	<u>107,002</u>	<u>22,036</u>	<u>108,198</u>
Interest paid	(5,108)	(9,457)	(14,545)
Interest received	358	144	307
Income tax paid	–	(887)	(515)
	<u>102,252</u>	<u>11,836</u>	<u>93,445</u>
<b>Cash flows from investing activities</b>			
Purchases of items of property, plant and equipment	(209,470)	(57,136)	(134,941)
Receipts of government grants	800	1,800	–
Additions to prepaid land lease payments	–	(13,419)	(1,505)
Decrease/(increase) in pledged deposits	800	–	(1,200)
	<u>(207,870)</u>	<u>(68,755)</u>	<u>(137,646)</u>

## SUMMARY

	<b>December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	21,604	–	–
Cash receipts from the former shareholders of Sifang Telecom	35,578	–	–
Decrease in an amount due to a related party	–	–	(474)
New bank loans	80,000	206,000	273,500
Repayment of bank loans	(48,000)	(80,000)	(206,000)
	<u>89,182</u>	<u>126,000</u>	<u>67,026</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Net foreign exchange difference	(16,436)	69,081	22,825
Cash and cash equivalents at beginning of year	(68)	(162)	(1,355)
	<u>53,710</u>	<u>37,206</u>	<u>106,125</u>
Cash and cash equivalents at end of year	<u>37,206</u>	<u>106,125</u>	<u>127,595</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	<u>37,206</u>	<u>106,125</u>	<u>127,595</u>

### GLOBAL OFFERING STATISTICS

We have compiled the Global Offering statistics on the assumption that the Over-allotment Option is not exercised. We have calculated these offering statistics by translating Renminbi amounts into Hong Kong dollars at the rate of HK\$1.00 = RMB0.8332, being the rate published by the PBOC on June 7, 2011.

	<b>Based on Offer Price of HK\$1.20 per Offer Share</b>	<b>Based on Offer Price of HK\$1.60 per Offer Share</b>
Our market capitalization upon completion of the Global Offering <sup>(1)</sup> . . . . .	HK\$1,440 million	HK\$1,920 million
Pro forma price/earnings multiple <sup>(2)</sup> . . . . .	6.6 times	8.8 times
Unaudited pro forma adjusted net tangible asset value per Share <sup>(3)</sup> . . . . .	HK\$0.92	HK\$1.02

(1) The calculation of the market capitalization is based on the assumption that 1,200,000,000 Shares will be in issue and outstanding immediately following the completion of the Global Offering, excluding any Shares which may be issued under the Over-allotment Option or under the Pre-IPO Share Option Scheme or the Share Option Scheme.

(2) The calculation of the pro forma price/earnings multiple is based on the audited earnings calculated by reference to the profit for the year ended December 31, 2010 and on the assumption that 1,200,000,000 Shares had been in issue throughout the year ended December 31, 2010, at the assumed Offer Price of HK\$1.20 and HK\$1.60 per Offer Share.

---

## SUMMARY

---

- (3) The unaudited pro forma adjusted net tangible assets per Share in the above table is calculated after the adjustments referred to in the section headed "Financial Information – Unaudited Pro Forma Adjusted Net Tangible Assets" in this prospectus and on the basis of 1,200,000,000 Shares in issue and outstanding immediately following the completion of the Global Offering, excluding any Shares which may be issued under the Over-allotment Option or under the Pre-IPO Share Option Scheme or the Share Option Scheme. If the Over-allotment Option is exercised in full, the unaudited pro forma adjusted net tangible assets per Share would be HK\$0.93 based on an Offer Price of HK\$1.20 per Offer Share and HK\$1.03 based on an Offer Price of HK\$1.60 per Offer Share.

### PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2011

Our directors forecast that, on the basis set out in Appendix III to this prospectus, the forecast consolidated profit attributable to owners of our company for the six months ending June 30, 2011 will not be less than RMB93.0 million. The unaudited pro forma forecast earnings per Share of our Group for the six months ending June 30, 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2011. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial results of our Group following the Global Offering.

Forecast consolidated profit attributable to  
owners of our company for the six months ending  
June 30, 2011<sup>(1)</sup> . . . . . not less than RMB93.0 million<sup>(4)(5)</sup>  
(equivalent to HK\$111.6 million)<sup>(3)</sup>

Unaudited pro forma forecast earnings per share  
for the six months ending June 30, 2011<sup>(2)</sup> . . . . . not less than RMB0.078  
(equivalent to HK\$0.093)<sup>(3)</sup>

*Notes:*

- (1) The bases on which the above Profit Forecast for the six months ending June 30, 2011 has been prepared are summarized in Part A of Appendix III to this prospectus.
- (2) The calculation of unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to owners of our company for the six months ending June 30, 2011 of RMB93.0 million and on the assumptions that our company has been listed since January 1, 2011 and a total number of 1,200,000,000 Shares were in issue during the six months ending June 30, 2011.
- (3) The forecast consolidated profit attributable to owners of our company and the unaudited pro forma forecast earnings per Share are converted into Hong Kong Dollars at an exchange rate of HK\$1.00 to RMB0.8332.
- (4) The forecast consolidated profit attributable to the owners of our company for the six months ending June 30, 2011 will be no less than RMB93.0 million, taking into account of the listing expenses in the amount of RMB21.3 million that will be allocated and charged to profit or loss for the six months ending June 30, 2011.
- (5) Our Group does not anticipate any material fluctuation in the average pricing of our principal raw materials during the six months ending June 30, 2011.

We have undertaken to the Stock Exchange that our interim report for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules if the Shares are listed on the Stock Exchange.

---

## SUMMARY

---

### DIVIDEND POLICY

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

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

In January 2010, we declared a one-off and nonrecurring special dividend of US\$7.5 million to all of our registered shareholders from our company's share premium account. Such dividend will be fully settled before the Listing with cash generated from our operations. The dividend will be distributed through Pacific Gain Technologies, our subsidiary in Hong Kong, and therefore will not be subject to the PRC withholding tax.

We have not entered into any agreement under which future dividends are waived or agreed to be waived.

### USE OF PROCEEDS

Based on an Offer Price of HK\$1.40 per Offer Share, being the midpoint of the Offer Price range stated in this prospectus, we estimate that we will receive net proceeds from the Global Offering of HK\$347 million from the new 300,000,000 Offer Shares to be offered by us, after deducting underwriting fees and expenses payable by us and assuming the Over-allotment Option is not exercised.

We intend to use these net proceeds for the following purposes:

- Approximately 21.5%, or HK\$75 million, which will be the estimated cost for the construction of plants to increase our production and machining capacity. We plan to commence the construction upon receipt of the net proceeds from the Global Offering and expect to complete the construction by 2011. We believe that the additional production capacity can be absorbed by the increasing demand for our products;

---

## SUMMARY

---

- Approximately 21.2%, or HK\$73 million, will be used to expand our production capacity of soft optical cables from 13,000 kilometers to 130,000 kilometers of soft optical cables by building nine new soft optical cable production lines, which are expected to commence operations in 2011;
- Approximately 20.0%, or HK\$69 million, will be used to expand our production capacity of fiber optic patch cords from 9 million to 12 million sets of fiber optic patch cords by building two additional fiber optic patch cord production lines, which are expected to commence operations in 2011;
- Approximately 15.2%, or HK\$53 million, will be used to expand our machining capacity from processing 1,300 tons of steel plates annually to 7,700 tons of steel plates annually by purchasing new equipment;
- Approximately 12.8%, or HK\$44 million, will be used to purchase equipment and facilities for research and development; and
- Approximately 9.3%, or HK\$33 million, will be used for working capital and other general corporate purposes.

We will not receive any of the proceeds from the sale of the Sales Shares in the Global Offering by the Selling Shareholders.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$1.60 per Offer Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by HK\$57 million. In such case, we intend to apply the additional net proceeds in the manner stated above on a pro-rata basis.

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$1.20 per Offer Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease by HK\$57 million. In such case, we intend to reduce the allocation of such net proceeds in the manner stated above on a pro-rata basis.

If the net proceeds to us from the Global Offering are lower than the capital requirements from the above future plans, we expect to fund these capital requirements by bank loans. If the net proceeds to us from the Global Offering exceed the capital requirements from the above future plans, we will allocate the surplus proceeds to working capital.

If the Over-allotment Option is exercised in full, we estimate that we will receive net proceeds of HK\$318 million at the low-end of the Offer Price range of HK\$1.20 per Offer Share and HK\$442 million at the high-end of the Offer Price range of HK\$1.60 per Offer Share, after deducting the estimated underwriting fees and expenses payable by us. The additional net proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the abovementioned purposes.

---

## SUMMARY

---

### RISK FACTORS

#### Risks related to Our Company:

- Our subsidiary, Pacific Gain Technologies, was named as a relief defendant in a complaint brought by the United States Securities and Exchange Commission against Rockford Funding Group, LLC in December 2009 and as a defendant in a complaint brought by the United States Attorney's Office for the Eastern District of New York in July 2010. Although Pacific Gain Technologies has obtained dismissal notices under both lawsuits, the ongoing proceedings against and investigations into the defendant and other parties under these lawsuits may expose Pacific Gain Technologies and our Group to further complaints and regulatory action.
- Our business and results of operations are affected by economic cycles, including the recent global financial and economic crisis.
- We derive a substantial portion of our revenue from our major customers, and the loss of any one of these customers, or a significant loss, reduction or rescheduling of orders from any of these customers, could have a material adverse effect on our business, results of operations and financial condition.
- We may experience delays or defaults in collecting trade receivables from our customers, which may adversely affect our cash flow, working capital, financial condition and operating results.
- We generally do not enter into long-term contracts with our customers.
- If we cannot continue to rapidly develop, manufacture and market customized products that meet customer requirements for performance and reliability, we may lose market share and our revenue may suffer.
- Our failure to acquire the key components and raw materials from our suppliers or to fill our customers' orders in a timely and cost-effective manner could materially and adversely affect our business operations.
- Intense competition from other fiber optic patch cord manufacturers in our markets may lead to reduced prices, gross profit and market share.
- We cannot assure you that we will be successful in implementing our future expansion plans or in managing our growth.
- Conducting business in overseas markets involves risks and uncertainties that could lead to reduced overseas sales and profitability associated with such sales.
- If we fail to attract or retain our key managerial and technical personnel, we may compromise our ability to maintain strong relationships with our customers and suppliers, develop new products and effectively carry on our research and development and other efforts.
- We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.



---

## SUMMARY

---

- Failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.
- Failure to maintain an effective quality control system could result in product returns, warranty claims or product liability claims against us.
- Our growth strategies require significant capital investments and may require us to seek external financing, which may not be available on terms favorable to us.
- We have limited insurance coverage in China.
- We could not assure you that future dividend payments will be of an amount similar to that declared historically.

### **Risks related to Our Industry:**

- If the communications industry in China does not sustain its current pace of growth, or if we fail to develop and commercialize new products and technologies in a timely manner, our growth, profitability and future prospects could be materially and adversely affected.
- The telecommunications industry has experienced, and may continue to experience, significant consolidation. Any disruption in our direct business relationship with any of our major customers as a result of market consolidation will adversely affect our sales and profitability.
- The communications equipment industry is subject to extensive and evolving laws and regulations, failure to comply with which could subject us to severe penalties.

### **Risks related to Our Operations in China:**

- Economic, political and social conditions and government policies in China could have a material adverse effect on our business, financial condition and results of operations.
- Uncertainties with respect to the PRC legal system could materially and adversely affect us.
- If we were deemed as a PRC resident enterprise under the newly enacted PRC tax law, we would be subject to PRC tax on our worldwide income, which may have a material adverse effect on our financial condition and results of operations.
- Gain on the sales of our Shares and dividends on our Shares may be subject to PRC income taxes.
- Any preferential tax treatment currently or previously available to our subsidiary in China could be discontinued.
- Fluctuations in the exchange rates of the RMB may adversely affect your investment and could materially affect our financial condition and results of operations.
- PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders who are PRC residents fail to make any required

---

## SUMMARY

---

applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

- As we are a holding company, our ability to make distributions and other payments to our shareholders depends to a significant extent upon the distribution of earnings and other payments made by our PRC subsidiary.
- It may be difficult to effect service of process upon us or our directors who live in China or to enforce against us or them in the PRC judgments obtained from non-PRC courts.
- A recurrence of Severe Acute Respiratory Syndrome (SARS) or an outbreak of Avian Flu (H5N1), Influenza A (H1N1) or any other epidemic may, directly or indirectly, adversely affect our operating results and the price of our Shares.

### **Risks related to the Global Offering:**

- There has been no prior public market for our Shares; the liquidity and market price of our Shares may be volatile.
- Sale or perceived sale of substantial amounts of our Shares in the public market after the Global Offering could materially and adversely affect the prevailing market price of our Shares.
- Purchasers of the Offer Shares will experience substantial and immediate dilution and may experience further dilution if we issue additional Shares in the future.
- The interest of our principal shareholders may differ from your interest and their vote may disadvantage our minority shareholders.
- You may experience difficulties in enforcing your shareholder rights because our company is incorporated in the Cayman Islands, and the laws of the Cayman Islands relating to minority shareholder protection may be different from the laws of Hong Kong and other jurisdictions.
- We cannot guarantee the accuracy of certain facts and statistics with respect to China, the Chinese economy and the fiber optic patch cord industry contained in this prospectus.

---

## DEFINITIONS

---

*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms."*

"Application Form(s)"	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offer
"Articles of Association" or "Articles"	the articles of association of our company conditionally adopted on June 3, 2011 and as amended or supplemented from time to time
"Banking Ordinance"	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong as amended, supplemented or otherwise modified from time to time
"BOCI," "Sole Global Coordinator," "Sole Sponsor," "Sole Bookrunner" or "Sole Lead Manager"	BOCI Asia Limited, a licensed corporation under the SFO for Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance)
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalization Issue"	the issue of Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our company referred to in the section headed "Appendix VI – Statutory and General Information – Further information about our Group – Written resolutions of all the shareholders of our company passed on June 3, 2011" in this prospectus
"Cathay"	Cathay Telecom Equipment Limited, a company incorporated under the laws of the BVI on September 3, 2007 with limited liability and one of our substantial shareholders
"Cayman Companies Law"	the Companies Law (2010 Revision) (as consolidated and revised from time to time) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

---

## DEFINITIONS

---

“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant
“CCID”	CCID Consulting Co., Ltd., an Independent Third Party, a China-based professional market research and consulting firm listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8235)
“CCID Report”	a report entitled “China Fiber Optic Patch Cord Industry Research Report” that we commissioned from CCID dated June 9, 2011
“China Netcom”	China Network Communications Group Corporation
“China Telecom”	China Telecommunications Corporation
“China Unicom”	China United Network Communications Group Co., Ltd.
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“company,” “our company,” “we,” “us,” “our,” “Group” or “our Group”	China Fiber Optic Network System Group Ltd. (中國光纖網絡系統集團有限公司), a company incorporated under the laws of the Cayman Islands on August 7, 2006 as an exempted company with limited liability, formerly known as Sapphire Holdings, Inc., and where the context so requires, including its subsidiaries (and in respect of the period before our company became the holding company of such subsidiaries, the entities which carried on the business of the present Group at the relevant time)
“Controlling Shareholders”	the controlling shareholders of our company, namely, Kemy, Mr. Zhao Bing and Ms. Shi Shuran
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Variation”	a deed of variation dated December 22, 2008 entered into among our company, Kemy, the Kemy Shareholders, Wakee, Mr. Gong Hongyu and Cathay amending and varying certain terms of the Subscription and Shareholders Agreement

---

## DEFINITIONS

---

“First Kemy Deed”	a deed dated December 22, 2008 entered into among Kemy, the Kemy Shareholders and Cathay
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
“Global Offering”	the Hong Kong Public Offer and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the official currency for the time being of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 40,600,000 new Shares being initially offered by our company for subscription at the Offer Price pursuant to the Hong Kong Public Offer (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offer”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer whose names are set out in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated June 15, 2011 relating to the Hong Kong Public Offer entered into, amongst others, between our company and the Hong Kong Underwriters
“IFRS”	the International Financial Reporting Standards promulgated by the International Accounting Standard Board, which includes International Accounting Standards and interpretations

---

## DEFINITIONS

---

“Independent Third Party(ies)”	party or parties that is or are not connected with us, any directors, chief executives, controlling shareholders or substantial shareholders of us or any of our subsidiaries or any of their respective associates
“Initial Shareholder”	Ms. Wen Yan (溫燕) an Independent Third Party to the best knowledge of the directors of our company, who, on the date of incorporation of our company, held 1,000,000 shares of our company, representing 100% of the then issued share capital of our company
“International Offering”	the offer of the International Offer Shares at the Offer Price outside the United States in reliance on Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Offer Shares”	a total of 365,400,000 Offer Shares, comprising 259,400,000 new Shares and 106,000,000 Sale Shares (subject to adjustment as described in the section headed “Structure of the Global Offering” and the Over-allotment Option) being offered by us and the Selling Shareholders for subscription and for sale, respectively, pursuant to the International Offering, with any additional Shares that may be issued by our company and the Over-allotment Sale Shares that may be sold by the Over-allotment Selling Shareholder pursuant to any exercise of the Over-allotment Option
“International Underwriters”	the underwriters of the International Offering whose names are set out in the section headed “Underwriting – International Underwriters” in this prospectus
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering to be entered into, amongst others, between our company, the Selling Shareholders, the Over-allotment Selling Shareholder, the International Underwriters and the Sole Global Coordinator on or about the Price Determination Date
“Kemy”	Kemy Holding Inc., a company incorporated under the laws of the Cayman Islands on September 3, 2007 with limited liability, which held 62.46% of our issued share capital before completion of the Global Offering and one of the Controlling Shareholders
“Kemy Shareholders”	the shareholders of Kemy, namely, Mr. Zhao Bing (趙兵), Ms. Shi Shuran (史淑然), Mr. Han Liren (韓立人), Mr. Zhang Yonglu (張永錄), Mr. Meng Yuxiao (孟欲曉) and Mr. Deng Xuejun (鄧學軍)



---

## DEFINITIONS

---

“Latest Practicable Date”	June 9, 2011, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about June 28, 2011, on which dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
“Memorandum of Association”	the memorandum of association of our company conditionally adopted on June 3, 2011 and as amended or supplemented from time to time
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Mr. Gong Hongyu”	Mr. Gong Hongyu (宮宏宇), an individual shareholder of our company
“Mr. Zhao Bing”	Mr. Zhao Bing (趙兵), an individual who owns 79% of the issued share capital of Kemy as of the Latest Practicable Date and one of the Controlling Shareholders as of the Latest Practicable Date. Mr. Zhao Bing is also the chairman and an executive director of our company
“Ms. Shi Shuran”	Ms. Shi Shuran (史淑然), an individual who owns 17% of the issued share capital of Kemy as of the Latest Practicable Date and the mother of Mr. Zhao Bing. Ms. Shi Shuran is also one of the Controlling Shareholders
“NDRC”	National Development and Reform Commission of China (中華人民共和國國家發展和改革委員會)
“Non-competition Deed”	a deed of non-competition dated June 13, 2011 executed by Kemy, Mr. Zhao Bing and Ms. Shi Shuran in favor of our company

---

## DEFINITIONS

---

“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) of not more than HK\$1.60 and expected to be not less than HK\$1.20, such price to be agreed upon by our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any Shares being issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by us to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters, pursuant to which we may be required to issue up to 24,900,000 additional new Shares and the Over-allotment Selling Shareholder to sell up to 36,000,000 additional Shares, in aggregate of 60,900,000 Shares, representing 15% of the Offer Shares initially being offered under the Global Offering to cover over-allocations in the International Offering, details of which are described in “Structure of the Global Offering” in this prospectus
“Over-allotment Sale Shares”	up to 36,000,000 Shares held and offered for sale by the Over-allotment Selling Shareholder under the Over-allotment Option
“Over-allotment Selling Shareholder”	Kemy
“Pacific Gain Technologies”	Pacific Gain Technologies Limited (恒裕科技有限公司), a company incorporated in Hong Kong on June 20, 2008 with limited liability and our wholly-owned subsidiary
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Performance Benchmarks”	the targeted audited net profits under the First Kemy Deed as amended by the Second Kemy Deed
“PRC” or “China”	the People’s Republic of China. References in this prospectus to the PRC or China exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	the PRC Generally Accepted Accounting Principles

---

## DEFINITIONS

---

“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme conditionally adopted by our company on June 3, 2011, further details of which are described in the section headed “Appendix VI – Statutory and General Information – Pre-IPO Share Option Scheme” in this prospectus
“Pre-reorganization Shareholders”	the shareholders of Sifang Telecom prior to the Reorganization, namely, Mr. Zhao Bing, Ms. Shi Shuran, Mr. Meng Yuxiao, Mr. Zhang Yonglu and Ms. Feng Xiaomei
“Price Determination Agreement”	the agreement to be entered into between our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date to record and fix the final Offer Price
“Price Determination Date”	the date, expected to be on or about June 21, 2011, on which the Offer Price is to be fixed by agreement between our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) and the Sole Global Coordinator (on behalf of the Underwriters), and in any event not later than June 24, 2011
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the official currency of the PRC
“Reorganization”	the reorganization that resulted in our current group structure completed on December 22, 2008 as described in the sections headed “History, Reorganization and Corporate Structure” and “Appendix VI – Statutory and General Information” in this prospectus
“Restricted Business”	any business of manufacture or sale of fiber optic patch cords and related products and such other business conducted or carried on by our Group from time to time under the Non-competition Deed
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sale Shares”	a total of 106,000,000 Shares after the Capitalization Issue held and offered for sale by the Selling Shareholders, namely Cathay and Wakee, as to 70,000,000 Shares and 36,000,000 Shares, respectively

---

## DEFINITIONS

---

“Second Deed of Variation”	a second deed of variation dated March 4, 2010 entered into among our company, Kemy, the Kemy Shareholders, Cathay, Wakee and Mr. Gong Hongyu amending and varying certain terms of the Subscription and Shareholders Agreement as amended and varied by the Deed of Variation
“Second Kemy Deed”	a deed dated January 14, 2010 among Kemy, the Kemy Shareholders and Cathay amending certain terms of the First Kemy Deed
“Selling Shareholders”	Cathay and Wakee
“Series A Preferred Shares”	preferred share(s) of nominal value of US\$0.001 each in the capital of our company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of nominal value of US\$0.001 each in the capital of our company
“Share Option Scheme”	the post-IPO share option scheme conditionally adopted by our company on June 3, 2011, further details of which are described in the section headed “Appendix VI – Statutory and General Information – Share Option Scheme” in this prospectus
“Sifang Telecom”	Hebei Sapphire Communication Equipment Co., Ltd. (河北四方通信設備有限公司), formerly known as Shijiazhuang City Sapphire Communication Equipment Co., Ltd. (石家莊市四方通信設備有限公司), a company incorporated in China on April 9, 1998 with limited liability and our wholly-owned subsidiary
“SPV”	special purpose vehicle
“Stabilizing Manager”	BOCI
“Standing Committee of the National People’s Congress”	the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between the Stabilizing Manager and Kemy

---

## DEFINITIONS

---

“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Subscription and Shareholders Agreement”	a subscription and shareholders agreement dated September 5, 2007 entered into among our company, Cathay, Wakee and six individual guarantors
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as approved by the SFC and as amended from time to time
“Third Deed of Variation”	a third deed of variation dated December 30, 2010 entered into among our company, Kemy, the Kemy Shareholders, Cathay, Wakee and Mr. Gong Hongyu amending and varying certain terms of the Subscription and Shareholders Agreement as amended and varied by the Deed of Variation and the Second Deed of Variation
“Track Record Period”	the three financial years ended December 31, 2010
“United States” or “U.S.”	the United States of America, its territories and possessions, and all other areas subject to its jurisdiction and all political subdivisions thereof
“US\$”	United States dollars, the official currency of the United States
“U.S. persons”	U.S. persons as defined in Regulation S
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“Wakee”	Wakee Holding Inc., a company incorporated under the laws of the Cayman Islands on February 15, 2007 with limited liability and a shareholder of our company
“Warrantors”	our company, Kemy, Mr. Zhao Bing, Ms. Shi Shuran, Cathay, Wakee, Mr. Gong Hongyu, Mr. Meng Yuxiao, Mr. Deng Xuejun, Mr. Hung, Randy King Kuen and Mr. Song Zhiping
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>

---

## DEFINITIONS

---

“White Form eIPO Service Provider”                      Computershare Hong Kong Investor Services Limited

“%”    per cent

The terms “associate,” “connected person,” “connected transaction,” “controlling shareholder,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

All numbers in this prospectus are approximate.

---

## GLOSSARY OF TECHNICAL TERMS

---

*This glossary contains explanations of certain terms used in this prospectus in connection with our company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.*

“CNC”	Computer Numerical Control
“Code Division Multiple Access (CDMA)”	a system that allows multiple users to share one or more radio channels for service by adding a unique code to each data signal sent to and from each radio transceiver. These codes are used to transmit data signal to a bandwidth much wider than is necessary to transmit the data signal without the code
“EPON”	Ethernet Passive Optical Network, which is a new optical access network technology. With a point-to-multipoint structure and transmission through passive optical fibers, it provides various business services on Ethernet. Having adopted PON technology at physical layer and Ethernet Protocol at link layer, it makes use of the topological structure of PON to gain access to Ethernet
“FC”	ferrule connector, a fiber optic patch cord with a threaded body, which is designed for use in high-vibration environments
“fiber optic patch cord”	a set of devices that consists of one or more soft optical cables with each of their ends connected to one or more connectors. The connectors make connections with optical cables or other equipment in the fiber optic communications network, while the soft optical cables transmit light signals
“Fiber-To-The-Home”	an installation where optical fiber physically enters the subscriber premises and connects to a router or other end equipment there
“FTTx”	Fiber To The X, a generic term for any broadband network architecture that uses optical fiber to replace all or part of the usual metal local loop used for last mile telecommunications, including but not limited to FTTH (fiber to the home), FTTP (fiber to the premise), FTTB (fiber to the building), FTTC (fiber to the curb), FTTN (fiber to the nodes), FTTF (fiber to the floor), FTTO (fiber to the office) and FTTD (fiber to the desk)
“ISO”	International Organization for Standardization
“LC”	lucent connector, a small square-headed fiber optic patch cord



---

## GLOSSARY OF TECHNICAL TERMS

---

“PON”	Passive Optical Network, which uses passive optical splitters and couplers that require no electrical power and that perform no processes other than to split downstream signals and combine upstream signals
“SC”	subscriber connector, a general purpose push/pull style fiber optic patch cord
“ST patch cord”	straight tip patch cord, a fiber optic patch cord that uses a plug and a socket that are locked in place with a half-twist bayonet lock
“third generation (3G)”	a term commonly used to describe the third generation of technology used in a specific application or industry. In cellular telecommunications, third generation systems use wideband digital radio technology as compared to second generation narrowband digital radio
“WLAN”	wireless local-area network

---

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

---

### MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive directors must be ordinarily resident in Hong Kong. At present, since our main operations are conducted in China, all of our executive directors (other than Mr. Hung, Randy King Kuen) ordinarily reside in China. We do not and will not, in the foreseeable future, have sufficient management presence in Hong Kong as required under Rule 8.12 of the Listing Rules.

Accordingly, the Sole Sponsor has applied to the Stock Exchange on our behalf for, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, and the Stock Exchange has granted the waiver on June 1, 2011, subject to the following conditions:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that our Group complies with the Listing Rules at all times. The two authorized representatives are Mr. Hung, Randy King Kuen, an executive director and the company secretary of our company and Mr. Meng Yuxiao, an executive director of our company. Mr. Hung, Randy King Kuen is ordinarily resident in Hong Kong. The authorized representatives are readily contactable by telephone, facsimile and email.
- (b) The authorized representatives have means of contacting our directors (including the independent non-executive directors) promptly at all times as and when the Stock Exchange wishes to contact our directors on any matters. To enhance the communication between the Stock Exchange, the authorized representatives and our directors, we have implemented a policy whereby (i) each director will provide their respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the authorized representatives; and (ii) all our directors and authorized representatives will provide their office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the Stock Exchange.
- (c) All our directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents or will be able to apply for valid travel documents to visit Hong Kong, and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period.
- (d) We will, in accordance with Chapter 3A of the Listing Rules, retain China Merchants Securities (HK) Co., Ltd. as our compliance advisor, who will, among other things, in addition to the authorized representatives, act as our company's additional channel of communication with the Stock Exchange.

---

## FORWARD-LOOKING STATEMENTS

---

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters.

The words “anticipate,” “believe,” “could,” “predict,” “potential,” “continue,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would,” “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, among others, those relating to our future business prospects, capital expenditures, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Our directors confirm that these forward-looking statements are made after due and careful consideration. Nonetheless, these forward-looking statements should be considered in light of various important factors, including those set forth in the section headed “Risk Factors” in this prospectus. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

---

## RISK FACTORS

---

*Investing in our Shares involves risks. Before deciding to invest in our Shares, you should carefully consider all of the information in this prospectus, including the following risk factors, in light of the circumstances and your own investment objectives. The occurrence of any of the following events could have a material adverse effect on our business, financial condition or results of operations, in which case the trading price of our Shares could also decline, and you could lose part or all of your investment. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that may differ significantly from that of other countries.*

The risks described below are those that we believe are material, but these may not be the only risks and uncertainties that we face. Additional risks that we have not identified or that we currently deem immaterial may nevertheless have a material adverse effect on our business, financial condition or results of operations, or result in other events that could lead to a decline in the value of the Shares.

### RISKS RELATED TO OUR COMPANY

**Our subsidiary, Pacific Gain Technologies, was named as a relief defendant in a complaint brought by the United States Securities and Exchange Commission against Rockford Funding Group, LLC in December 2009 and as a defendant in a complaint brought by the United States Attorney's Office for the Eastern District of New York in July 2010. Although Pacific Gain Technologies has obtained dismissal notices under both lawsuits, the ongoing proceedings against and investigations into the defendant and other parties under these lawsuits may expose Pacific Gain Technologies and our Group to further complaints and regulatory action.**

#### *The SEC Lawsuit*

Our subsidiary, Pacific Gain Technologies, was named as one of thirteen relief defendants in a complaint brought by the United States Securities and Exchange Commission (the "**Commission**") against Rockford Funding Group, LLC on December 7, 2009, in the United States District Court, Southern District of New York (the "**SEC Lawsuit**").

Upon notification of the proceedings in June 2010, Pacific Gain Technologies engaged a United States litigation counsel and acted swiftly to satisfy the disgorgement obligation in connection with the SEC Lawsuit. The Commission issued a Dismissal Notice on September 24, 2010 and the Dismissal Notice was filed with the New York Southern District Court and the New York Southern District Court acknowledged the Dismissal Notice on the same day.

#### *The USA Lawsuit*

The United States Attorney's Office for the Eastern District of New York ("**EDNY**") filed a civil action *in rem* against, among other things, all funds on deposit at Pacific Gain Technologies' bank account in Kowloon, Hong Kong. The action in the United States District Court, Eastern District of New York (Brooklyn) (the "**New York Eastern District Court**") sought to forfeit and condemn to the use and benefit of the United States all funds on deposit in Pacific Gain Technologies' bank account in Hong Kong and contained similar content to the complaint in the SEC Lawsuit.

The EDNY issued a notice of dismissal with prejudice on November 4, 2010 (the "**EDNY Dismissal Notice**"). The judge in the New York Eastern District Court countersigned the EDNY Dismissal Notice on the same day and the EDNY Dismissal Notice was filed in the same court on November 10, 2010.

---

## RISK FACTORS

---

Lurie & Park, our U.S. legal advisor, has advised that our Group's exposure is most likely limited to the disgorgement obligation which has been satisfied upon payment of the Disgorgement Sum. Our directors confirm, to the best of their knowledge and belief, that both the SEC Lawsuit and the USA Lawsuit (the "**U.S. Legal Proceedings**") have not affected and will not affect our Group's operations and financial position.

For more details, see the section headed "Business – Legal Compliance and Proceedings – Legal proceedings in the United States."

Notwithstanding: (i) Pacific Gain Technologies' satisfaction of the disgorgement obligation; (ii) the dismissal notices under the U.S. Legal Proceedings; and (iii) our U.S. legal advisor's advice, we cannot rule out the possibility of further claims and allegations against Pacific Gain Technologies and our Group which may arise from ongoing investigations into Rockford Funding Group, LLC and other parties named in the U.S. Legal Proceedings.

**Our business and results of operations are affected by economic cycles, including the recent global financial and economic crisis.**

The global financial markets have experienced significant disruptions since 2007, and most of the world's major economies remain in or are emerging from recession. While some economic indicators have improved, the recovery may not be sustainable. The negative economic outlook has affected business and consumer confidence. Any decline in fiber optic patch cord price as a result of the economic downturn may negatively affect our results of operations. Any prolonged slowdown in the global capital markets, as well as any slowdown of economic growth in China, may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

Economic conditions in China have materially affected our results of operations. The communications equipment industry in which we operate is sensitive to macroeconomic trends as the equipment price tends to decline in recessionary periods. For example, due to the global economic crisis, our overseas customers reduced their purchase orders for our products and prolonged their payment cycles, which has adversely affected overseas sales since 2008. During the Track Record Period, substantially most of our revenue was derived from sales of fiber optic patch cords and related accessory products in China. A global recession or an economic downturn in China, as well as uncertainties regarding the future economic prospects of China or other major economies in the world, could depress the prices of fiber optic patch cords and related accessory products and adversely affect our sales, and would likely have an adverse effect on our results of operations and financial condition.

**We derive a substantial portion of our revenue from our major customers, and the loss of any one of these customers, or a significant loss, reduction or rescheduling of orders from any of these customers, could have a material adverse effect on our business, results of operations and financial condition.**

Our business is substantially dependent on the investments in communications infrastructure and development of our major customers. We derive a substantial portion of our revenue from a limited number of major customers. Sales to our top five customers collectively accounted for 78.2%, 63.2% and 76.2% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively. In particular, our financial results to a large extent depend on our sales to three of the major telecommunications network operators in China. Our direct sales to these three customers accounted for 52.8% of our revenue for the year ended December 31, 2010.

---

## RISK FACTORS

---

We expect to continue to derive a substantial portion of our revenue from our major customers. However, we cannot assure you on our ability to successful by retain these customers. Any failure to maintain our established relationships with them, due to unsuccessful sales and marketing efforts, lack of suitable products, unsatisfactory customer support and after-sale services or any other reason, could result in loss of a key customer and its business. If we lose a key customer, or if a key customer significantly reduces its purchasing levels or delays a major purchase, or if we fail to attract additional major customers, our business, financial condition and results of operations could be materially and adversely affected.

**We may experience delays or defaults in collecting trade receivables from our customers, which may adversely affect our cash flow, working capital, financial condition and operating results.**

We offer credit terms generally accepted in the telecommunications equipment industry to our trade customers, which for a significant number of our products are within a credit period of one year, although a portion of customers enjoy only a shorter credit period of 30 to 90 days from us. We decide on the length of credit terms based on price, the size of the contract, and the credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit limits of customers are evaluated periodically. Our trade receivables amounted to RMB92.2 million, RMB386.5 million and RMB563.7 million, respectively, as of December 31, 2008 and 2009 and 2010, representing 66.0%, 75.6% and 77.4%, respectively, of our total current assets at the end of each reporting period. Our trade receivable turnover days increased from 58 days in 2008 to 135 days in 2009 and further to 207 days in 2010. As of April 30, 2011, we had collected RMB311.5 million, accounting for 55.3% of the outstanding balance as of December 31, 2010.

Although we have established a credit evaluation system and maintain comprehensive evaluation procedures to manage the credit risks associated with trade receivables, if our customers refuse or fail to make payments on a timely basis or at all, we would be required to write off receivables or increase our impairment, and our cash flow, working capital, financial condition and operating results may be adversely affected.

**We generally do not enter into long-term contracts with our customers.**

We generally do not have long-term purchase commitments from our customers and our sales are made on the basis of individual purchase orders without fixed timing each year. Although our customers may cancel, defer or reduce their purchase orders, without paying any penalties and compensation under the purchase agreements we entered into with them, we did not experience any cancellation of purchase orders from our customers during the Track Record Period. Therefore, we have not adopted any measures to mitigate possible losses to us in this regard. We cannot assure you that any of our customers will place purchase orders with us in the future at the same level as in prior periods, or that the volume of our customers' purchase orders will be consistent with our expectation when we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

**If we cannot continue to rapidly develop, manufacture and market customized products that meet customer requirements for performance and reliability, we may lose market share and our revenue may suffer.**

The fiber optic patch cord industry is competitive and the underlying technology is ever-evolving. We believe that our future success will depend upon our ability to develop and produce customized products and solutions to meet the requirements of our customers in a rapidly

---

## RISK FACTORS

---

developing and evolving market. We are currently devoting significant resources to designing our fiber optic patch cords and related products that operate in accordance with our customers' networks and systems. We will also need to continue to expand, train, manage and motivate our workforce as well as manage our relationships with suppliers and customers. As we build new production facilities or add more production lines, we will incur greater maintenance costs to maintain our production equipment. Deficiency in resource, unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of these products that we may plan to introduce in the future. There is no assurance that our research and development capacity will be adequate to respond and adapt to technological and industry developments, or at all. If we are unable to anticipate changes or keep up with the latest developments in the production technology and solutions underlying the industry on a timely basis, we may fail to produce products that respond to the competitive industry conditions and changing customer demands, and our business, financial condition and results of operations could be materially and adversely affected.

**Our failure to acquire the key components and raw materials from our suppliers or to fill our customers' orders in a timely and cost-effective manner could materially and adversely affect our business operations.**

We purchase from third-party suppliers our principal raw materials and components, such as ceramic ferrule and soft optical cables, for the production of our fiber optic patch cords and other products. Our five largest suppliers collectively accounted for 60.2%, 86.7% and 85.6% of our purchases of raw materials and components for the years ended December 31, 2008, 2009 and 2010, respectively, while our largest supplier accounted for 26.0%, 25.4% and 23.2%, respectively, of our purchases for the corresponding years.

Although we have built up stable relationships with these suppliers, we cannot assure you that we could maintain sufficient supply to meet our production requirement or obtain alternative sources in a timely manner in the event of supply deficiency in the future. If one or more of our principal suppliers fail to meet our quality standards or our quantity demands and we cannot locate other suppliers that can meet our standards, our production, sales volume and results of operations will be adversely affected.

**Intense competition from other fiber optic patch cord manufacturers in our markets may lead to reduced prices, gross profit and market share.**

The fiber optic patch cord manufacturing industry is highly competitive and is characterized by rapid technological advancement and evolving industry standards and trend. We believe that competition in this industry will continue to intensify, which may result in a decrease in our selling prices or profit margin and our inability to gain or hold market share.

According to CCID, the fiber optic patch cord market in China is characterized by competition with differentiated products, with the major players offering different types of products and targeting different customers. The fiber optic patch cord market in China is dominated by a few major players, with a large number of manufacturers competing for the rest of the market. We face competition in China from Sunsea Telecommunications Co., Ltd. ("**Sunsea**"), Shenzhen Centuryman Communication Equipment Co., Ltd. ("**Centuryman**"), Ningbo Longxing Telecommunications Equipment Manufacturing Co., Ltd. ("**Longxing**") and Changzhou Taiping Electric Co., Ltd. ("**Taiping**"). We also face competition in the overseas market from international telecommunications equipment manufacturers, including LEMO USA Inc. ("**LEMO**"), Tyco Electronics Corporation ("**Tyco**"), 3M Company ("**3M**") and ADC Telecommunications Inc. ("**ADC**"). Our competitors may be able to develop products that are superior to ours and may have greater



---

## RISK FACTORS

---

financial, technical, manufacturing and other resources than we do. Some of our competitors may have better brand name recognition, more established distribution networks and larger customer bases than we do. As a result, they may be able to devote greater resources to the research, development, marketing and sales of their products and respond more quickly to evolving industry standards and changes in market conditions than we can. Our failure to keep pace with the rapid technological developments in the fiber optic patch cord industry, adapt to changing market conditions and compete successfully with existing or new competitors may materially and adversely affect our financial condition and results of operations.

**We cannot assure you that we will be successful in implementing our future expansion plans or in managing our growth.**

We commenced business operations in 1998 and have grown significantly since then. To manage the potential growth of our operations, we will be required to improve our operational and financial systems, procedures and controls, increase our manufacturing capacity and output and expand, train and manage our growing employee base. Our future growth will be affected by various factors, including but not limited to, our ability to manage our operation and expansion, obtain any required financing, achieve operational efficiencies, and secure sufficient access to raw materials. Furthermore, we will need to maintain and expand our relationships with customers, suppliers and other third parties. If we are unable to manage these aspects of our business effectively, our ability to conduct or expand our business would be impaired, and we may fail to attract and retain qualified management staff and employees to accommodate our future growth, which may in turn materially and adversely affect our business, financial condition, results of operations and prospect.

**Conducting business in overseas markets involves risks and uncertainties that could lead to reduced overseas sales and profitability associated with such sales.**

Historically, particularly in the year ended December 31, 2008, a substantial portion of our sales were made outside China. Our overseas sales were mainly made to distributors of communications networks projects located in Ireland, New Zealand and Canada that mainly engaged in distribution of telecommunication products. For the years ended December 31, 2008, 2009 and 2010, our overseas sales amounted to RMB226.5 million, RMB105.2 million and RMB195.9 million, respectively, representing 67.7%, 16.3% and 23.4%, respectively, of our total revenue for the corresponding years. Although we currently focus on the Chinese market, we may decide to expand our international market in the future, and our international business may be subject to the risk of uncertain economic, political and legal environments, such as:

- difficulties in entering the foreign markets;
- inherent difficulties and delays in enforcing contracts and collecting receivable in foreign legal systems;
- the risk of trade barriers, such as anti-dumping and other tariffs or other restrictions imposed on foreign trade;
- changes in the political, regulatory, or economic conditions in a foreign country or region;
- fluctuation in the exchange rates of the RMB against foreign currencies; and
- the burden of complying with foreign laws and regulations.

---

## RISK FACTORS

---

Furthermore, our competitors in the overseas market may possess greater resources and operating experience than we do. If we are unable to manage these risks effectively, our ability to conduct or expand our business overseas would be impaired and we may experience reduced overseas sales and profitability associated with such sales.

**If we fail to attract or retain our key managerial and technical personnel, we may compromise our ability to maintain strong relationships with our customers and suppliers, develop new products and effectively carry on our research and development and other efforts.**

Our future success depends heavily upon the continued services of our senior executives and other key employees. We rely on their expertise in developing business strategies, managing business operations and strengthening our relationships with our suppliers and customers. We do not carry key person insurance of our executive officers. If one or more of our senior executives or key employees were unable or unwilling to continue in their present positions, we may not be able to replace them in a timely manner or at all. If any dispute arises between our key employees and us, we cannot assure you of the extent to which any of the employment agreements that we have entered into with our key employees could be enforced, in light of the uncertainties within the legal system in China. Consequently, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain personnel.

**We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.**

Our success depends largely on our ability to use and develop our technology and know-how without infringing on the intellectual property rights of third parties. The validity and scope of claims relating to patents, proprietary technologies or other intellectual property rights in the fiber optic patch cord industry involve complex scientific, legal and factual questions and analysis, and therefore may be highly uncertain. We may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the attention and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Prolonged litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

**Failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.**

We rely on a combination of patent, trademark and trade secret laws, as well as confidentiality agreements and other methods to protect our intellectual property rights. Nevertheless, the actions we take to protect our intellectual property rights may not be adequate to provide us with meaningful protection or commercial advantage. We cannot assure you that any patent will be issued as a result of our applications or that, if issued, it will sufficiently protect our intellectual property rights. Implementation of the intellectual property-related laws in China has historically been lacking, primarily because of ambiguities in the laws of China and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in other countries. Policing unauthorized use of proprietary technology is difficult and

---

## RISK FACTORS

---

expensive. The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us for doing so, which could harm our business and competitive position. Although we are not currently involved in any litigation with respect to intellectual property, we may need to enforce our intellectual property rights through litigation in the future. Litigation relating to our intellectual property might result in diversion of resources and management attention. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

**Failure to maintain an effective quality control system could result in product returns, warranty claims or product liability claims against us.**

The success of our business to a large extent depends on our ability to maintain an effective quality control system, since our products and solutions involve complex and highly technological standards. In order to effectively control the performance and quality of our products and solutions, we need to manage a number of factors and aspects of our business, including our quality testing program, the design of our quality control system, our quality training system, and our ability to ensure that our employees adhere to the quality control policies. Some of these factors may be beyond our control. For example, we cannot test our products for all possible scenarios, and our products may contain defects which cannot be discovered or corrected in a timely manner. Although we did not experience any product returns, warranty claims and product liability claims during the Track Record Period, defects in our quality control system may result in product returns, warranty claims and product liability claims brought against us, which could cause damage to our reputation, breach of contract with our customers, decreased demand for our products, costly litigation and loss of revenue. This could have a material adverse effect on our results of operations and financial condition.

We currently do not maintain product liability insurance for our products, and our contracts with customers do not limit our liability for consequential damages that arise from any defects of our products. Therefore, any product liability claims against us could have a material adverse effect on our financial condition.

**Our growth strategies require significant capital investments and may require us to seek external financing, which may not be available on terms favorable to us.**

Our business is a capital-intensive business. Our ability to maintain and increase our revenue, net profits and cash flows depends upon continued capital investment. Our capital expenditures may vary significantly from these planned amounts due to various factors, including but not limited to, our ability to generate sufficient cash flows from our operations and investments to finance our capital expenditures, and our ability to obtain external financing. In addition, we plan to expand our manufacturing capacities by constructing two additional production lines of fiber optic patch cords and nine production lines of soft optical cables. We will need substantial financial resources in order to successfully achieve our expansion plan.

---

## RISK FACTORS

---

Our ability to arrange financing and the costs of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- the availability of credit from banks or other lenders;
- investor confidence in us; and
- the continued performance of our projects.

Our operations may not generate sufficient cash flows to fund our capital investment requirements. Therefore, we may be required to finance our capital needs through public or private equity offerings, bank loans or other debt financing, or otherwise. We cannot assure you that financing for our future expansion will be available on terms favorable to us or at all, which could force us to delay, reduce or abandon our growth strategy, increase our financing costs, or both. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed. In the event that we fail to obtain sufficient funding for our operations or development plans, our business, results of operations and financial condition could be materially adversely affected.

### **We have limited insurance coverage in China.**

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, except for property insurance for our properties, equipment and transportation vehicles, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. The occurrence of certain incidents including severe weather, earthquake, fire, war, power outages, flooding and the consequences resulting from them may not be covered by our insurance policies adequately, or at all. If we were subject to substantial liabilities that were not covered by our insurance, we could incur costs and losses that could materially and adversely affect our results of operations.

### **We could not assure you that future dividend payments will be of an amount similar to that declared historically.**

In January 2010, we declared a one-off and non-recurring special dividend of US\$7.5 million to all of our registered shareholders to be paid before the Listing with cash generated from our operations. We did not declare or pay any other dividend since we commenced our operations. There is no assurance that dividends of similar amounts, if any, will be declared by us in the future. The US\$7.5 million dividend declared in January 2010 is not indicative of our future dividend policy. For further details on our dividend policy, please see “Financial Information – Dividend Policy.”

---

## RISK FACTORS

---

### RISKS RELATED TO OUR INDUSTRY

**If the communications industry in China does not sustain its current pace of growth, or if we fail to develop and commercialize new products and technologies in a timely manner, our growth, profitability and future prospects could be materially and adversely affected.**

We derive substantially all of our revenue by providing customized fiber optic patch cords and related products used in a variety of applications in the communications industry. The continued growth of the communications industry in China is essential to our business growth prospects and future success. Although the fiber optic patch cord industry in China has experienced fast expansion in recent years in line with the growth of the communications industry, we cannot assure you that such growth will be sustained in the future. If the growth of the communications industry in China slows down or continues at a rate lower than we anticipate, the market demand for our products may decrease, and our profitability and future prospects could be materially and adversely affected.

We have invested and will continue to invest substantial amounts of capital, manpower and other resources to develop new products and technologies to adapt to the evolving industry standards and trends, such as the expansion of 3G networks, the adoption of the FTTx technology and the upgrade of the broadcast and television networks. However, our abilities to successfully develop and commercialize these new products and technologies are subject to a number of risks and uncertainties, including uncertainty surrounding the timing of the adoption of these new standards and technologies by the communications industry and the receptiveness to these new technologies by their customer base, as well as our abilities to develop and market these new products cost-effectively and to deliver these products ahead of our competitors. Any of the above risks and uncertainties could jeopardize our ability to successfully realize a significant return on our investment.

**The telecommunications industry has experienced, and may continue to experience, significant consolidation. Any disruption in our direct business relationship with any of our major customers as a result of market consolidation will adversely affect our sales and profitability.**

Recent examples of significant consolidation in the telecommunications industry in China include China Telecom's acquisition of the CDMA network from China Unicom through a series of transactions commencing from June 2, 2008, and China Netcom's merger with and into China Unicom on October 15, 2008. Consolidation in the telecommunications industry has a significant effect on the purchasing decisions by merged companies. Any delays or reductions in telecommunications equipment purchases, especially those from our major customers, could have a material adverse effect on demand for our products and our profitability. We have had to adjust our sales tactics following each of these events as our customers changed their purchase method, preference or the specifications of the products they desire. Any disruption in our relationships with our major customers could materially and adversely affect our sales and profitability.

---

## RISK FACTORS

---

**The communications equipment industry is subject to extensive and evolving laws and regulations, failure to comply with which could subject us to severe penalties.**

The communications equipment industry in which we operate is required to comply with extensive PRC laws and regulations on matters such as regulations on the telecommunications industry, product quality and intellectual properties. For example, our products are subject to product certification by a qualified third party under the existing rules. please see “Regulations – Industry Regulations – Notice Concerning the Implementation of the Products Certifications on Optical Cable and Telecommunications Equipment.” If we fail to obtain or renew such product certification on a timely basis, the sales of our products will be suspended and we may face fines or other severe penalties. In addition, the Chinese government exercises considerable control over the structure and overall development of the communications equipment industry in China. It also owns a substantial percentage of all major telecommunications network operators in China. The MIIT is the primary central government agency responsible for regulating the communications equipment industry in China and has broad discretion and authority. The MIIT has adopted, and may adopt in the future, regulations that impose stringent standards on the communications equipment industry in China, with which we must comply. In order to comply with new regulations or revisions of previously implemented regulations, we may be required to change our business plan, increase our costs or limit our ability to sell our products and solutions. If we are not able to comply with these regulations, we would be subject to various penalties, including fines and suspension or discontinuation of our operations. Therefore, adoption of new laws or regulations by the Chinese government or a change in or revision of the interpretation of existing laws or regulations may also negatively affect our business prospects.

### **RISKS RELATED TO OUR OPERATIONS IN CHINA**

**Economic, political and social conditions and government policies in China could have a material adverse effect on our business, financial condition and results of operations.**

Substantially all of our business operations were conducted in China and a significant portion of our sales were made in China during the Track Record Period. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments of China. At present, China is a developing country. Its economy differs from developed economies in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- the growth rate;
- the level and control of capital investment; and
- the control of foreign exchange.



---

## RISK FACTORS

---

While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. We cannot assure you that the Chinese economy will continue to grow or to do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. The PRC government also exercises significant control over Chinese economic growth through allocating resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of investments and expenditures in China, which in turn could lead to a reduction in demand for communications equipment and consequently have a material adverse effect on our businesses.

### **Uncertainties with respect to the PRC legal system could materially and adversely affect us.**

We conduct substantially all of our business through our subsidiary established in China, Sifang Telecom. The subsidiary is generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws and regulations applicable to wholly foreign-owned enterprises. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit the legal protections available to us. In addition, the PRC legal system is based on written statutes and the administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, as a result of which it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we will obtain than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all. As a result, we may not be aware of our violation of these policies and internal rules until some time after the violation. We cannot predict the effect of the future developments in the PRC legal system, including the legal developments with regard to the Chinese telecommunications industry, which may include the promulgation of new laws or policies, changes to existing laws or policies, or the interpretation or enforcement thereof, or the preemption over local regulations by national laws. All these uncertainties could limit the legal protections available to us and affect the way we run our business, including our ability to enforce our agreements with our distributors and suppliers, and other business partners.

### **If we were deemed as a PRC resident enterprise under the newly enacted PRC tax law, we would be subject to PRC tax on our worldwide income, which may have a material adverse effect on our financial condition and results of operations.**

The Enterprise Income Tax Law of the PRC (the “**New EIT Law**”), which became effective on January 1, 2008, provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the Implementation Rules of the New EIT Law, issued by the State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. At present, the PRC tax authorities have not issued any guidance on the application of the New EIT Law and its Implementation Rules on offshore entities which are controlled by Chinese individuals. As a result,



---

## RISK FACTORS

---

it is unclear what factors will be used by the PRC tax authorities to determine whether we are a “de facto management body” in China. A substantial number of our management personnel are located in China, and all of our revenues arise from our operations in China. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may have a material adverse effect on our financial condition and results of operations.

**Gain on the sales of our Shares and dividends on our Shares may be subject to PRC income taxes.**

Under the previous PRC tax laws and regulations, dividends paid by us to our overseas investors were not subject to PRC withholding tax or income tax. If we are deemed to be a PRC “resident enterprise” under the “de facto management body” test of the New EIT Law and its Implementation Rules, dividends on our Shares may be regarded as income from “sources within China,” and therefore, become subject to a 10% withholding tax. However, it is unclear whether the dividends we pay would be treated as income derived from sources within China and be subject to the PRC tax. If we are required under the New EIT Law and its Implementation Rules to withhold PRC income tax on any dividends we pay to our foreign shareholders, the value of your investment in our Shares may be materially and adversely affected.

**Any preferential tax treatment currently or previously available to our subsidiary in China could be discontinued.**

The Chinese government has provided various incentives to foreign-invested companies, such as Sifang Telecom, although these incentives are subject to the New EIT Law. Pursuant to the New EIT Law and its Implementation Rules, foreign-invested enterprises and domestic companies would be subject to an enterprise income tax at a uniform rate of 25%, and the preferential tax treatment of two-year tax exemption and three-year tax reduction of 50% granted before March 16, 2007 will continue to be valid until the expiration of its term. Sifang Telecom, as a foreign-invested production enterprise established before March 16, 2007, is entitled to a full exemption from income tax for the two years ended December 31, 2007 and 2008 and a 50% tax reduction in income tax for the three years ending December 31, 2009, 2010 and 2011. Any increase in the tax rate applicable to Sifang Telecom or discontinuation or reduction of any of the preferential tax treatments or financial incentives Sifang Telecom currently enjoys could have a material adverse effect on our business, results of operations or financial condition.

**Fluctuations in the exchange rates of the RMB may adversely affect your investment and could materially affect our financial condition and results of operations.**

A substantial portion of our revenue and most of our expenditures are denominated in Renminbi, which is currently not a freely convertible currency. We will require foreign currencies for dividend payment, if any, to our shareholders. We will therefore be exposed to foreign currency fluctuations. The value of RMB depends, to a large extent, on China’s domestic and international economic, financial and political developments and government policies, as well as the currency’s supply and demand in the local and overseas markets. For over 10 years from 1994, the conversion of RMB into foreign currencies, including the U.S. dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day’s inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the U.S. dollar was largely stable until July 2005 when the PBOC allowed the official RMB exchange rate to float against a basket of foreign currencies, including the U.S. dollar. In July 2008, the PBOC established a narrow band within which the RMB could fluctuate against these currencies, the practical effect of which has been to re-peg the RMB

---

## RISK FACTORS

---

to the U.S. dollar. From July 21, 2005 to December 31, 2010, the RMB appreciated by 20.0% against the U.S. dollar. Fluctuation of the value of RMB will affect the amount of our non-RMB denominated debt serviced in RMB terms since we have to convert RMB into non-RMB currencies to service our non-RMB denominated debt. Any appreciation of RMB will also increase the value of, and any dividends payable on, our Shares in foreign currency terms. Conversely, any depreciation of RMB will decrease the value of, and any dividends payable on, our Shares in foreign currency terms.

**PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders who are PRC residents fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.**

The SAFE issued a public circular on October 21, 2005 (the “**SAFE Circular No. 75**”) concerning the acquisition by an offshore company controlled by PRC residents of onshore assets in China. This circular requires that (i) a PRC resident shall register with the local branch of the SAFE before he or she establishes or controls an overseas SPV for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or his or her equity interests in a domestic enterprise to an SPV, or engages in overseas equity financing (including convertible debt financing) after contributing assets or equity interests to an SPV, such PRC resident shall register his or her interest in the SPV and the change in such interest with the local branch of the SAFE; and (iii) when the SPV undergoes a material change outside of China, such as a change in share capital or merger and acquisition, the Chinese resident shall, within 30 days from the occurrence of the event that triggers the change, register such change with the local branch of the SAFE. Furthermore, PRC residents who are shareholders of SPVs established before November 1, 2005 are required to register with the local SAFE branch.

Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular No. 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity. If any PRC shareholder of an offshore company fails to make the required SAFE registration or amendment, the PRC subsidiaries of the offshore company may also be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liabilities under PRC laws on the PRC shareholders concerned for evasion of applicable foreign exchange restrictions.

The beneficial owners of our company who are PRC residents have registered with the local SAFE branch as required under the SAFE Circular No. 75. However, we cannot assure you that these beneficial owners who are also PRC residents will update their registrations with the local SAFE in full compliance with the SAFE Circular No. 75 when updating of their existing registrations is required. The failure or inability of beneficial owners of our company who are resident in China to comply with the registration procedures set forth in the SAFE Circular No. 75 may subject these beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to us or otherwise adversely affect our business.

---

## RISK FACTORS

---

**As we are a holding company, our ability to make distributions and other payments to our shareholders depends to a significant extent upon the distribution of earnings and other payments made by our PRC subsidiary.**

As we are a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our subsidiaries, in particular Sifang Telecom, our operating subsidiary in China. Under PRC law and the articles of association of Sifang Telecom, dividends may be paid only out of distributable profits. Distributable profits refer to after tax profits as determined under PRC GAAP less any recovery of accumulated losses and required allocation to statutory funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years.

The calculation of distributable profits of Sifang Telecom under PRC GAAP differs in certain aspects from the calculation under IFRS. As a result, Sifang Telecom may not be able to pay dividend in a given year if they do not have distributable profits as determined under PRC GAAP even if they have profits as determined under IFRS. Accordingly, since our company derives most of our earnings and cash flows from dividends paid to us by Sifang Telecom, we may not have sufficient distributable profits to pay dividends to our shareholders.

**It may be difficult to effect service of process upon us or our directors who live in China or to enforce against us or them in the PRC judgments obtained from non-PRC courts.**

Our company is a holding company incorporated in the Cayman Islands, while all of the assets of our operating subsidiary are located within China. Most of our directors are residents in China. Therefore, it may not be possible for investors to effect service of process upon us or those persons in China or to enforce against us or them in China any judgments obtained from non-PRC courts.

Although we will be subject to the Listing Rules, the Takeovers Code and other related rules and regulations upon the listing of our Shares on the Stock Exchange, the holders of our Shares will not be able to bring actions on the basis of any violations of the Listing Rules and must rely on the Stock Exchange or other relevant authorities to enforce such rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and only provide standards of acceptable commercial conduct for takeover and merger transactions and share repurchases in Hong Kong.

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between the Parties Concerned. Under such arrangement, where any designated People's Court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. The arrangement has been promulgated by the Supreme People's Court of the PRC and came into effect on August 1, 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain.

---

## RISK FACTORS

---

China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States or most other Western countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. Accordingly, it may be difficult to secure recognition and enforcement in China for court judgments obtained in other jurisdictions and to access our assets or assets of our directors in China in order to enforce judgment awards entered against us or our directors outside of China. Therefore, it may be difficult for you to enforce against us, or our directors in China, any judgments obtained from non-PRC courts.

**A recurrence of Severe Acute Respiratory Syndrome (SARS) or an outbreak of Avian Flu (H5N1), Influenza A (H1N1) or any other epidemic may, directly or indirectly, adversely affect our operating results and the price of our Shares.**

Recently, certain Asian countries, including China, have encountered incidents of SARS, Avian Flu or Influenza A. If any of our employees is identified as a possible source of spreading SARS, Avian Flu, Influenza A or any other epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that have come into contact with those employees. We may also be required to disinfect our affected premises, which could cause a temporary suspension of our manufacturing capacity, thus adversely affecting our operations. Even if we are not directly affected by the epidemic, an outbreak of SARS, Avian Flu, Influenza A or other epidemic, whether inside or outside China, could restrict the level of economic activity generally, which could in turn adversely affect our operating results and our share price.

### RISKS RELATED TO THE GLOBAL OFFERING

**There has been no prior public market for our Shares; the liquidity and market price of our Shares may be volatile.**

Prior to the Global Offering, there was no public market for our Shares. The Offer Price for our Shares will be determined by us, the Selling Shareholders and the Underwriters based on, among other things, market and economic conditions on the date the Offer Price is determined, our results of operations, market valuations of other companies engaged in similar activities, the present state of our business operations, our management, indications of interest from potential investors in our Shares and other relevant factors, and may differ from the market prices for the Shares after the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active and liquid public trading market for our Shares. In addition, the price and trading volume of our Shares may be volatile. Factors such as the following may affect the volume and price at which our Shares will be traded:

- actual or anticipated fluctuations in our revenues and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;

---

## RISK FACTORS

---

- the operating and stock price performance of other companies and other industries;
- events or factors beyond our control;
- release of lock-up or other transfer restrictions on our outstanding Shares; or
- sales or perceived sales of additional Shares by us or our shareholders.

**Sale or perceived sale of substantial amounts of our Shares in the public market after the Global Offering could materially and adversely affect the prevailing market price of our Shares.**

The Shares beneficially owned by our Controlling Shareholders, Cathay and Wakee, are subject to certain lock-up restrictions. There is no assurance that these shareholders will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. Sales of substantial amounts of our Shares in the public market, or the perception that such sales may occur, could materially and adversely affect the prevailing market price of our Shares. Such sales or the perception of such sales are likely to make it more difficult for us to sell equity or equity-linked securities in the future at a time and price which we deem appropriate.

**Purchasers of the Offer Shares will experience substantial and immediate dilution and may experience further dilution if we issue additional Shares in the future.**

The Offer Price of the Offer Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in unaudited pro forma adjusted net tangible asset value of HK\$0.58 per Share, based on the maximum Offer Price of HK\$1.60 per Offer Share assuming the Over-allotment Option is not exercised. In order to expand our business, we may consider offering and issuing additional Shares in the future. We may also issue additional Shares pursuant to our Pre-IPO Share Option Scheme and Share Option Scheme. Purchasers of the Offer Shares may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share.

**The interest of our principal shareholders may differ from your interest and their vote may disadvantage our minority shareholders.**

Immediately upon the completion of the Global Offering and assuming no exercise of the Over-allotment Option, each of the following current principal shareholders will continue to hold a significant portion of equity interest in our company:

- Kemy with 46.85%;
- Cathay with 9.79%; and
- Wakee with 8.28%.

Furthermore, Mr. Zhao Bing, the chairman of our board of directors, beneficially owns 37.0% of our issued share capital through Kemy upon the completion of the Global Offering (assuming no exercise of the Over-allotment Option), and 33.9% of our issued share capital through Kemy if the Over-allotment Option is fully exercised. Because of this high level of shareholding, Mr. Zhao Bing

---

## RISK FACTORS

---

has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. The interest of any of these principal shareholders may differ from your interest. We cannot assure you that any of these shareholders will vote in a way that benefits you. If circumstances arise in which the interest of any of these shareholders conflict with other shareholders' interests, minority shareholders may be disadvantaged. For instance, concentration of ownership may discourage, delay or prevent a change in control of our company, which may deprive our shareholders of an opportunity to receive a premium for their Shares as part of a sale of our company and might reduce the price of our Shares.

**You may experience difficulties in enforcing your shareholder rights because our company is incorporated in the Cayman Islands, and the laws of the Cayman Islands relating to minority shareholder protection may be different from the laws of Hong Kong and other jurisdictions.**

Our company is an exempted company incorporated in the Cayman Islands with limited liability, and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located.

Our company's corporate affairs are governed by the Memorandum of Association, the Cayman Companies Law and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interest of minority shareholders differ in some respects from those established under statutes and judicial precedents in other jurisdictions. This may mean that the remedies available to the company's minority shareholders may be different from those they would have under the laws of other jurisdictions. See "Appendix V – Summary of the Constitution of our company and Cayman Islands Companies Law – Summary of Cayman Islands Company Law and Taxation."

**We cannot guarantee the accuracy of certain facts and statistics with respect to China, the Chinese economy and the fiber optic patch cord industry contained in this prospectus.**

Certain facts and statistics in this prospectus relating to China, the Chinese economy, the communications industry and other related sectors of China are derived from various governmental official publications and other sources. However, we cannot guarantee the quality or reliability of such governmental official publications or the other sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced and extracted from such governmental official publications, they have not been independently verified by us, the Underwriters, or any of their or our affiliates or advisors. Therefore, we make no representation as to the accuracy of such information and the investors should not place undue reliance on such information as a basis for making the investment for the Shares.



---

# **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

---

## **RESPONSIBILITY OF THE DIRECTORS FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which the directors of our company collectively and individually accept full responsibility, contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. The directors of our company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

## **INFORMATION ON THE GLOBAL OFFERING**

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms, and on the terms and subject to the conditions set out in this prospectus and the Application Forms. No person is authorized to give any information in connection with the Hong Kong Public Offer or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by us, the Selling Shareholders, the Over-allotment Selling Shareholder, the Sole Global Coordinator, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the “Structure of the Global Offering” in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in “How to Apply for Hong Kong Offer Shares” in this prospectus and in the relevant Application Forms.

## **UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer. Details of the terms of the Global Offering are described in the section headed “Structure of the Global Offering” in this prospectus.

The Listing is sponsored by the Sole Sponsor.

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our company (for itself and on behalf of the Selling Shareholder and the Over-allotment Selling Shareholder) on or before the Price Determination Date.

Details of the Underwriters and the underwriting arrangements are set out in “Underwriting” in this prospectus.

## **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price which is expected to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) on or around Tuesday, June 21, 2011, and in any event no later than Friday, June 24, 2011.

If the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) are unable to reach an agreement on the Offer Price, the Global Offering will not proceed and will lapse.



---

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

---

### **RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his/her acquisition of Hong Kong Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued under the Capitalization Issue, and any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and any option to be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on or around June 28, 2011.

None of our Shares or loan capital are listed on or dealt in on any other exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(l) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our company by the Stock Exchange.

### **SHARES WILL BE ELIGIBLE FOR CCASS**

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisors.

---

# INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

---

## PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Selling Shareholders, the Sole Global Coordinator, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

## REGISTER OF MEMBERS AND STAMP DUTY

Our company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Our company's principal register of members will be maintained by Maples Fund Services (Cayman) Limited in the Cayman Islands.

Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

## CURRENCY TRANSLATIONS

Unless otherwise specified, translations of HK\$ into US\$, RMB into HK\$, RMB into US\$ and vice versa in this prospectus are based on the rates set out below (for the purpose of illustration only):

US\$1.00	:	HK\$7.7792
US\$1.00	:	RMB6.4816
HK\$1.00	:	RMB0.8332

No representation is made that any amounts in RMB, HK\$ and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

## LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

---

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

---

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedure for applying for Hong Kong Offer Shares is set out in “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **ROUNDING**

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### DIRECTORS

Name	Address	Nationality
------	---------	-------------

#### *Executive directors*

Mr. Zhao Bing (趙兵) <i>Chairman</i>	No. 502, Unit 1, Building 8 Yuandongyuan Community Chang'an District Shijiazhuang Hebei, China	Chinese
---------------------------------------	--	---------

Mr. Meng Yuxiao (孟欲曉)	No. 502, Unit 1 No. 27 Jingying Road Qiaoxi District Shijiazhuang Hebei, China	Chinese
-----------------------	--	---------

Mr. Deng Xuejun (鄧學軍)	No. 907, Building 1 No. 269 Zhongsan Donglu Chang'an District Shijiazhuang City Hebei Province, China	Chinese
-----------------------	---	---------

Mr. Hung, Randy King Kuen (孔敬權)	Flat 4, 13th Floor, Block B Ventriss Place 19-23 Ventriss Road Happy Valley, Hong Kong	Canadian
------------------------------------	---	----------

#### *Non-executive director*

Mr. Song Zhiping (宋志平)	No. 25, Zhejiang Road Heping District Tianjin China	Chinese
------------------------	--	---------

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Independent non-executive directors</i>		
Mr. Shi Cuiming (石萃鳴)	Flat E, 20th Floor Willow Mansion Harbour View Gardens West 22 Taikoo Wan Road Tai Koo Shing Hong Kong	Chinese
Dr. Ma Kwai Yuen (馬桂園)	Flat A, 25th Floor Wing Cheung Court 37-47 Bonham Road Hong Kong	Australian
Mr. Lui Pan (呂品)	5G, Marigold Mansion Taikoo Shing Hong Kong	Chinese

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Global Coordinator, Sole Sponsor, Sole Bookrunner and Sole Lead Manager</b>	BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Central Hong Kong
<b>Auditors and reporting accountants</b>	Ernst & Young <i>Certified Public Accountants</i> 18th Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
<b>Legal advisors to our company</b>	<i>As to Hong Kong law:</i> Stevenson, Wong & Co. 4th Floor & 5th Floor Central Tower 28 Queen's Road Central Hong Kong  <i>As to PRC law:</i> Grandall Legal Group 45th-46th Floors, Nanzheng Building 580 Nanjing West Road Shanghai 200041, China  <i>As to Cayman Islands law:</i> Maples and Calder 53rd Floor, The Center 99 Queen's Road Central Hong Kong  <i>As to U.S. law:</i> Lurie & Park Wilshire Colonnade Building 3721 Wilshire Boulevard, Suite 600 Los Angeles, California 90010
<b>Legal advisors to the Underwriters</b>	<i>As to Hong Kong law:</i> Orrick, Herrington & Sutcliffe 43rd Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong  <i>As to PRC law:</i> Jingtian & Gongcheng 34th Floor, Tower 3, China Central Place 77 Jianguo Road Chaoyang District Beijing 100025, China

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

<b>Property valuer</b>	Jones Lang LaSalle Sallmanns Limited 6/F Three Pacific Place 1 Queen's Road East Hong Kong
<b>Receiving bankers</b>	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong  Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong
<b>Cayman Islands principal share registrar and transfer office</b>	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square Grand Cayman KY1-1102 Cayman Islands
<b>Hong Kong Branch Share Registrar and Transfer Office</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong



---

## CORPORATE INFORMATION

---

<b>Registered Address</b>	Maples Corporate Services Limited PO Box 309, Ugland House Grand Cayman, Cayman Islands
<b>Principal Place of Business and Address of Headquarters</b>	Alishan Avenue Economic and Technological Development Zone Shijiazhuang Hebei, China
<b>Principal Place of Business in Hong Kong</b>	Office Suite 2001-02 20th Floor, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
<b>Website Address</b>	<a href="http://www.chinafiber optic.com">www.chinafiber optic.com</a> <sup>(1)</sup>
<b>Company Secretary</b>	Mr. Hung, Randy King Kuen (HKICPA, AICPA, MBA)
<b>Authorized Representatives</b>	Mr. Hung, Randy King Kuen Flat 4, 13th Floor, Block B Ventris Place 19-23 Ventris Road Happy Valley Hong Kong  Mr. Meng Yuxiao No. 502, Unit 1 No. 27 Jingying Road Qiaoxi District Shijiazhuang Hebei, China
<b>Members of Audit Committee</b>	Dr. Ma Kwai Yuen ( <i>Chairman</i> ) Mr. Shi Cuiming Mr. Lui Pan
<b>Members of Remuneration Committee</b>	Mr. Zhao Bing ( <i>Chairman</i> ) Mr. Lui Pan Mr. Shi Cuiming
<b>Members of Corporate Governance Committee</b>	Dr. Ma Kwai Yuen ( <i>Chairman</i> ) Mr. Shi Cuiming Mr. Hung, Randy King Kuen

*Note:*

(1) The information contained on the website of our company does not form part of this prospectus.

---

## CORPORATE INFORMATION

---

**Compliance Advisor**

China Merchants Securities (HK) Co., Ltd.  
48th Floor, One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**Principal Bankers**

Bank of Communications, Shijiazhuang Branch  
Heping Xi Road Sub-branch  
399 Heping Xi Road  
Xinhua District  
Shijiazhuang  
Hebei, China

Bank of Hebei  
Huai An Road Sub-branch  
298 Qing Yuan Road  
Shijiazhuang  
Hebei, China

China CITIC Bank Corporation,  
Shijiazhuang Branch  
209 Xinhua Dong Road  
Shijiazhuang  
Hebei, China

---

## INDUSTRY OVERVIEW

---

*The information and statistics set forth in this section have been extracted from a report dated June 9, 2011 on the fiber optic patch cord market in China issued by CCID, an independent market research company that we commissioned with a fee of RMB220,000. We believe that the CCID Report is an appropriate source of information. Data compiled by CCID is based on published information and interviews with companies in the relevant industry, including us.*

*This section contains information derived from various sources. We believe that these sources are appropriate for deriving such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, their respective directors or advisors or any other party involved in the Global Offering and no representation is given as to its accuracy.*

### INTRODUCTION

We have commissioned CCID, an independent market research company based in China, to analyze and report on the fiber optic patch cord market in China. To provide an analysis of this market, CCID combined both primary and secondary research by applying its macro-economic outlook and its understanding of the development patterns of the industry. Data collection was carried out by analysts with specific knowledge of the fiber optic patch cord market. Secondary sources such as company report and historical market data were generated through the analysis of relevant data such as production, trade and consumption that were prepared by various governmental authorities and industry associations, such as MIIT and China Federation of IT Promotion (中國信息化推進聯盟). In preparing its report, CCID also conducted interviews with domestic fiber optic patch cord suppliers and manufacturers to support its forecast model. The interviews also served as a method of cross-checking and data verification. Market forecasts present CCID's view of the key demand market drivers to determine the future development of the fiber optic patch cord market. The information and statistics as set forth in this section have been extracted from the report issued by CCID.

### OVERVIEW OF COMMUNICATIONS INDUSTRY

The communications industry consists of the network operation sector, content and application services sector, and communications equipment sector. The network operators operate and maintain communications networks and provide customers with access to the communications networks and the associated facilities. The content and application services providers create, edit and distribute the content and applications to meet customer needs. The communications equipment suppliers produce communications equipment and systems and sell them to companies in the network operation industry and content and application services industry, as well as end-users of communications services.

The communications equipment industry can be divided into three segments:

- Core equipment, such as switch center, base station, surveillance equipment, optical networking equipment and other equipment which integrate software and hardware systems, and functions as the key equipment in the communications networks;

---

## INDUSTRY OVERVIEW

---

- Connection and distribution equipment, such as optical distribution frames, digital distribution frames, cross connection cabinets for optical cables, optical fiber cable termination boxes, fiber cable joint closures, cable switch boxes, EPON boxes, WLAN boxes and other equipment; and
- Passive equipment, such as fiber optic patch cords, fiber optic cables, fiber adaptors, fiber couplers and other equipment which facilitate the transmission of electrical signals but do not alter the flow of the signals.

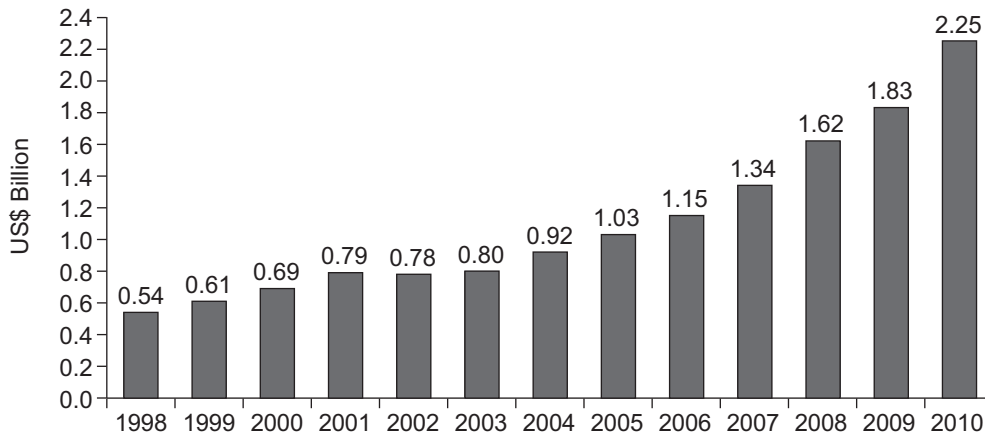
Our products include fiber optic patch cords and other related accessories, which belong to the passive equipment segment. We also produce optical distribution frames, digital distribution frames, cross connection cabinets for optical cable, optical fiber cable termination boxes, fiber cable joint closure, cable switch boxes, EPON boxes and WLAN boxes, all of which belong to the connection and distribution equipment segment. In fiber optic communication systems, fiber optic cables are used to transmit light signals. A fiber optic patch cord is a device used to connect fiber optic cables or pieces of equipment in the fiber optic communications networks. Fiber optic patch cords are the most widely used optic accessory in fiber optic communication systems. Fiber optic patch cords can be used in broad applications, including telecommunications networks, broadcast and television communications networks and computer networks. A variety of fiber optic patch cords of different dimensions and methods of mechanical connection are available in the market and some of the most widely used types of fiber optic patch cords include FC fiber optic patch cord, SC fiber optic patch cord, ST fiber optic patch cord and LC fiber optic patch cord.

### THE GLOBAL FIBER OPTIC PATCH CORD INDUSTRY

Over the past decade, the global communications industry has experienced growth, driven by the economic growth, technological innovation, growth and deregulation of many industries, which in turn led to the rapid growth of the global communications equipment industry. There has been a slowdown in the investments in global communications industry since the outbreak of the global financial crisis in 2008. At the same time, the global communications equipment industry has experienced a slowdown in growth in 2009. For the fiber optic patch cord industry, its market development trend is basically in line with that of the communications industry as a whole. However, growing demand for fiber optic patch cords from certain industries, such as the rapidly developing broadband networks, has driven the global fiber optic patch cord industry to steadily grow over the past few years. From 2003 to 2010, the size of the global fiber optic patch cord market increased from US\$800 million to US\$2.3 billion, according to CCID. The chart below sets out the size of the global fiber optic patch cord market between 1998 and 2010.

## INDUSTRY OVERVIEW

### Global Fiber Optic Patch Cord Market Size 1998-2010



Source: CCID

The global fiber optic patch cord industry is characterized by evolving technologies and intense competition. Major manufacturers of fiber optic patch cords in the global market include Amphenol Corporation (“**Amphenol**”), 3M, Sumitomo Corporation (“**Sumitomo**”), Tyco and LEMO. According to CCID, the top five fiber optic patch cord manufacturers have an aggregate global market share of 56% in terms of sales volume for 2010. The table below sets out the top five fiber optic patch cord manufacturers in the world based on their respective sales volume and global market share in 2010:

#### Top Five Fiber Optic Patch Cord Manufacturers in the World in 2010 in Terms of Sales Volume

Ranking	Company	Sales volume (units in million)	Market share
1	Amphenol	33	13.6%
2	3M	29	11.9%
3	Sumitomo	25	10.3%
4	Tyco	25	10.3%
5	LEMO	24	9.9%
Total		<u>136</u>	<u>56%</u>

Source: CCID

The demand for fiber optic patch cords is closely related to the development of the communications industry as a whole. According to CCID, the steady growth of the global fiber optic patch cord industry in recent years has primarily been driven by continuous expansion of the fiber optic communications markets, in particular, in Asia-Pacific, North America and Europe, the accelerated development of the FTTx market, especially in China, India and Brazil, and the expansion of 3G networks.

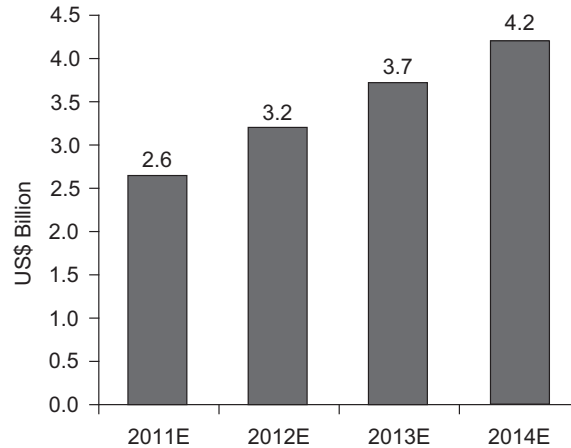
In line with the development of fiber optic communications technologies, the fiber optic patch cord manufacturers offer more diversified, specialized and customized products, including single mode fiber optic patch cords, fiber optic ribbon patch cords and multimode fiber optic patch cords, which are increasingly used in fiber optic communications networks. CCID estimates the global fiber optic patch cord market to grow to US\$4.2 billion by 2014. The following chart shows the forecast data from 2011 to 2014.

---

## INDUSTRY OVERVIEW

---

### Global Fiber Optic Patch Cord Market Size Forecast 2011-2014



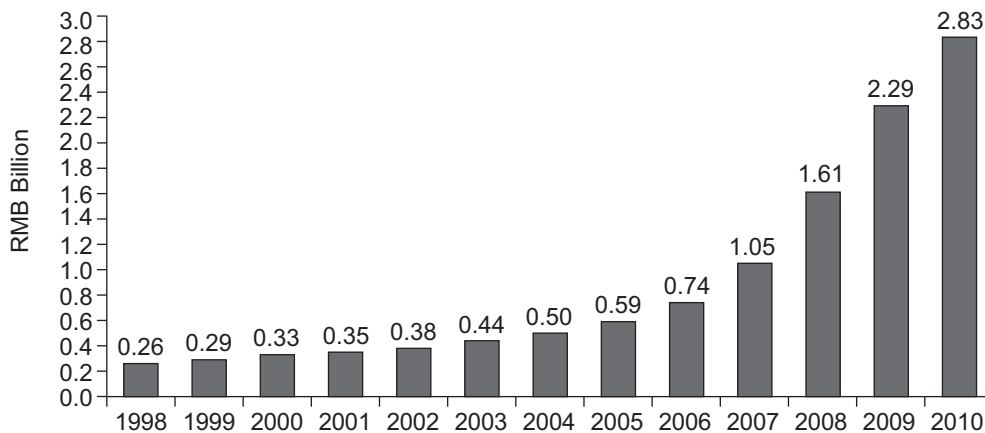
Source: CCID

### THE FIBER OPTIC PATCH CORD INDUSTRY IN CHINA

#### Overview of the Fiber Optic Patch Cord Industry in China

China's economy has grown rapidly in recent years, which has led to the development of the communications industry and the increase in demand for communications equipment, including fiber optic patch cords. In China, fiber optic patch cords are broadly used in a variety of applications, including telecommunications networks, broadcast and television networks and specialized communications networks. As a result of the increasing domestic demand for fiber optic patch cords, the fiber optic patch cord industry in China has grown rapidly since the end of the 1990s. According to CCID, due to the significant expansion of the fiber optic communications networks, the size of the Chinese fiber optic patch cord market increased from RMB260 million in 1998 to RMB2.8 billion in 2010. During the same period, the FC patch cord was the most popular type of fiber optic patch cords in the Chinese market with a market share of 39% in terms of sales volume, with the SC, LC, ST patch cords representing 23%, 19%, and 8% of the total market, respectively, according to CCID. The chart below sets out China's fiber optic patch cord market size from 1998 to 2010.

#### China's Fiber Optic Patch Cord Market Size 1998-2010



Source: CCID

---

## INDUSTRY OVERVIEW

---

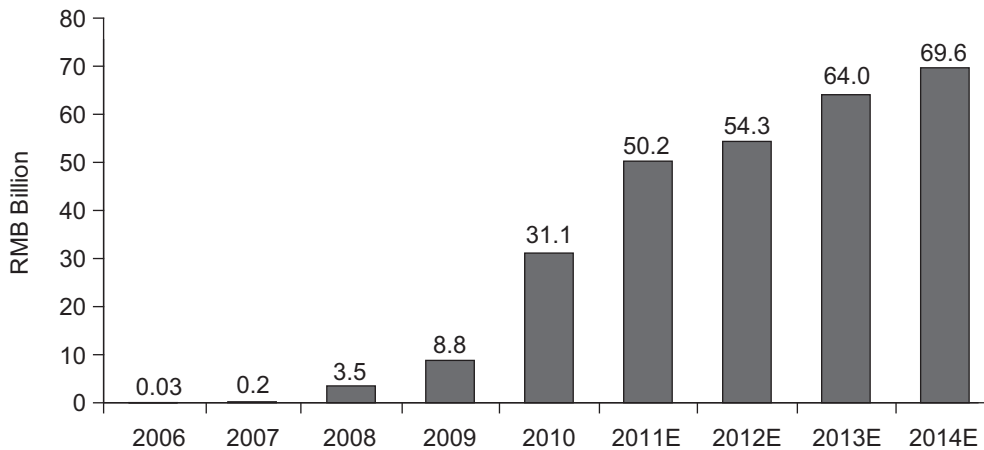
### Factors Driving the Development of the Fiber Optic Patch Cord Industry in China

In recent years, the growth in the fiber optic patch cord market in China has been primarily driven by the investments by telecommunications network operators, broadcast and television communications network operators and other specialized communications network operators. According to CCID, the key drivers for the growth of the fiber optic patch cord industry in China include:

*Expansion of 3G networks.* The three telecommunications network operators have invested heavily in the expansion of 3G networks, after receiving the 3G licenses in January 2009. According to CCID, three of the major telecommunications network operators in China together invested over RMB146 billion on the expansion of 3G in 2010. The expansion of 3G networks is expected to create a growing demand for communications equipment, including fiber optic patch cords.

*Adoption of FTTx technology.* FTTx technology is a generic term for any broadband network architecture technology that uses optical fiber to replace all or part of the usual metal local loop used for last mile telecommunications, including but not limited to FTTH (fiber to the home), FTTP (fiber to the premise), FTTB (fiber to the building), FTTC (fiber to the curb), FTTN (fiber to the neighbour), FTTF (fiber to the floor), FTTO (fiber to the office) and FTTD (fiber to the desk). According to CCID, FTTx technology is expected to become the main access method for communications network in China in a few years. CCID predicts an annual demand in the range of 16 million to 40 million sets of fiber optic patch cords generated from the adoption of the FTTx technology in the next five years. As such, the adoption of FTTx technology in China is expected to be one of the major growth catalysts for the expansion of the fiber optic patch cord industry in China. The chart below sets out the historical and forecast China's FTTx technology equipment market size for the period between 2006 and 2014:

**China's FTTx Technology Equipment Market Size 2006-2014E**



Source: CCID



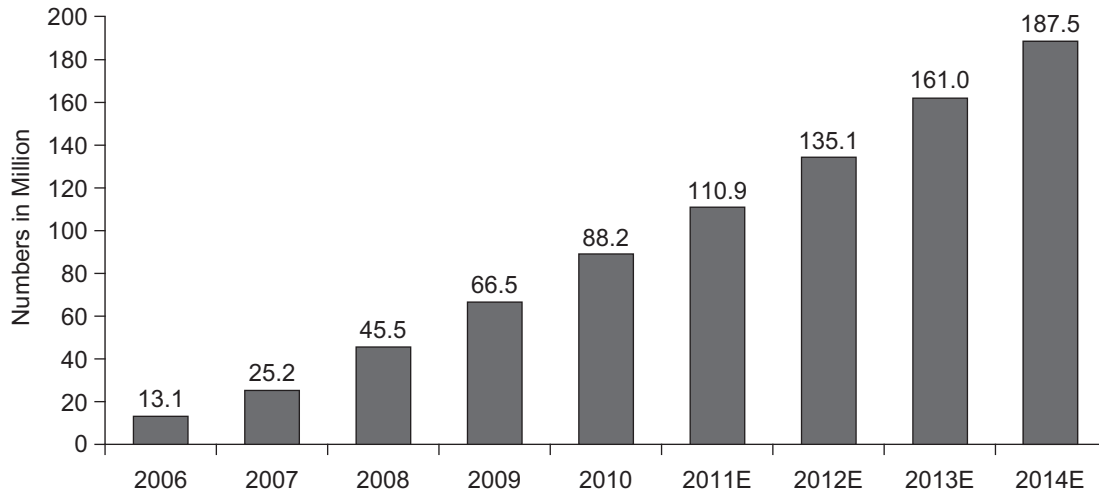
---

## INDUSTRY OVERVIEW

---

*Upgrade of the broadcast and television networks.* According to CCID, China had 88.2 million digital cable television subscribers at the end of 2010. The Chinese government is determined to expand and upgrade the broadcast and television networks in China and is contemplating large-scale infrastructure construction with respect to the existing networks. As the use of fiber optic cables represents the trend in broadcast and television networks, expansion and upgrade of broadcast and television networks present potential demand for fiber optic patch cords over the next few years. The chart below sets out the historical and forecast numbers of China's cable television subscribers for the period between 2006 and 2014:

**China's Cable Television Subscribers 2006-2014E**



Source: CCID

- *Promoted integration of three networks.* In January 2010, the State Council released a policy that called for the accelerated integration of the telecommunications networks, the broadcast and television communications networks and the Internet. Under this policy, operators of the broadcast and television communications networks will be permitted to provide certain telecommunications and Internet services, while telecommunications network operators will be allowed to produce and transmit certain radio and video programs. This policy is anticipated to lead to large-scale investments by communications network operators in the expanding networks. In addition, the Chinese government's promotion of the use of fiber optic cables instead of copper cables in the telecommunications networks, the broadcast and television communications networks and the Internet has also contributed to the growth of the fiber optic patch cord industry in China;
- *Increasing investments in specialized networks.* In addition to the increasing demand from telecommunications network operators, the fiber optic patch cords are also widely used in specialized networks, such as railway and highway communications networks, which are experiencing accelerated expansion and upgrade; and
- *Encouraged development of telecommunications services and information technology in rural areas and western China.* The Chinese government encourages development of communications and information technology services in rural areas and in western China, where the market is less saturated. The increasing demand in western China for telecommunications and information technology services represents significant, continuing and long-term growth potentials for the fiber optic patch cord industry in China.

---

## INDUSTRY OVERVIEW

---

### Challenges Facing the Fiber Optic Patch Cord Industry in China

According to CCID, in spite of the rapid growth over the past few years, the fiber optic patch cord industry in China faces the following challenges:

- *Effects of the recent global economic and financial crisis.* The market for fiber optic patch cords depends largely on spending of the telecommunications network operators and the special network operators. The recent global economic and financial crisis has caused and may continue to cause negative impact on the communications industry, which in turn may adversely affect the fiber optic patch cord market in China;
- *Potential competition from international competitors.* Many international manufacturers of fiber optic patch cords contemplate the expansion of their sales to the Chinese market. Some of them have a longer operating history, more advanced technologies and greater resources than us. We may lose out market share if we cannot successfully compete with the international players.

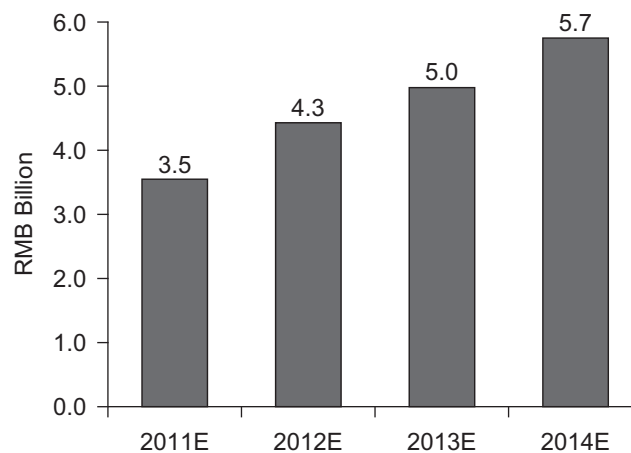
### Trends in the Development of the Fiber Optic Patch Cord Industry in China

According to CCID, the future development of the fiber optic patch cord industry in China will be characterized by the following three trends:

#### *Continuing rapid growth in the fiber optic patch cord industry in China*

Along with the development of China's economy, the fiber optic patch cord industry in China is expected to grow rapidly over the next few years. With relatively low 3G networks and internet coverage compared with developed countries, the communications industry in China offers significant growth potential, which in turn will create strong demand for the fiber optic patch cords. The market size of the fiber optic patch cord market is expected to grow from RMB3.5 billion in 2011 to RMB5.7 billion by 2014. The chart below demonstrates China's estimated fiber optic patch cord market size for the period between 2011 and 2014:

**China's Fiber Optic Patch Cord Market Size Forecast 2011-2014**



Source: CCID

---

## INDUSTRY OVERVIEW

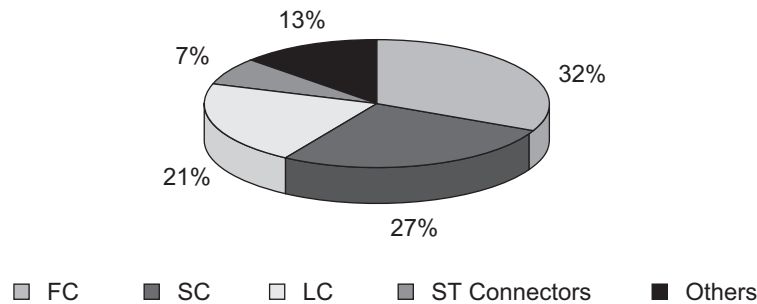
---

*Significant increase in the variety and quality of products offered by the manufacturers*

To meet various needs of customers in a rapidly evolving market, manufacturers of fiber optic patch cords in China are expected to provide more diversified and customized products and solutions of higher quality. In response to the trend in the communications industry towards smaller-sized equipment, the fiber optic patch cord products are anticipated to be in smaller sizes. In line with the wide application of fiber optic cables containing multiple optical fibers and of the need to enhance the efficiency of patch cords, multimode fiber optic patch cords that can connect a number of optical fibers simultaneously are anticipated to be in greater demand. With respect to the applications of different types of fiber optic patch cords, CCID projects that SC fiber optic patch cords and LC fiber optic patch cords will be more widely used.

The chart below sets out a breakdown of projected applications of various types of fiber optic patch cords in China in 2014:

**Forecast of Applications of China's Fiber Optic Patch Cords by Types in 2014**

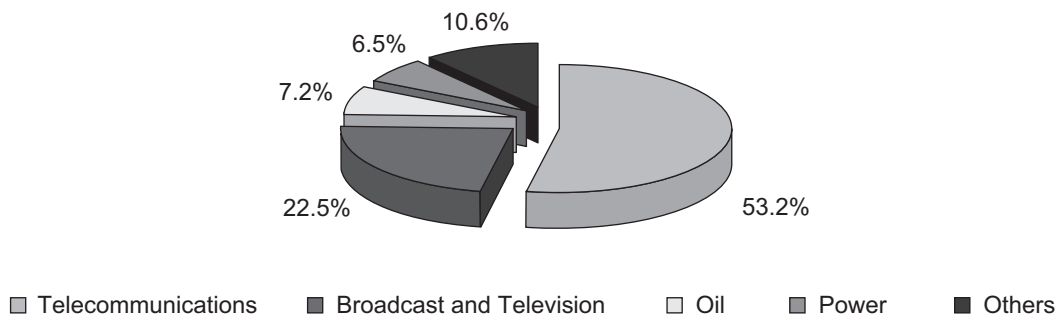


Source: CCID

*Broader applications of fiber optic patch cords in various industries*

The broader application of the fiber optic patch cords is also a major development trend of the fiber optic patch cord industry in China. Compared to the demand from telecommunications and broadcast and television networks, the demand from the oil and power industries is expected to grow faster and account for a larger percentage of the total consumption of fiber optic patch cords. The chart below sets out a breakdown of the end use of fiber optic patch cords in China by value in 2014:

**Forecast of End-use of China's Fiber Optic Patch Cords in 2014**



Source: CCID

---

## INDUSTRY OVERVIEW

---

### Supplies of Raw Materials in China

The principal raw materials for the manufacture of fiber optic patch cords are ceramic ferrules and soft optical cables. Steel plates, modules, plastic and packaging materials are the main raw materials for connection and distribution equipment. Ceramic ferrules generally constitute 35% of the production cost of a fiber optic patch cord, while soft optical cables generally constitutes 25% of the production cost of a fiber optic patch cord. Other accessories collectively account for 40% of the production cost of a fiber optic patch cord. The fiber optic patch cord manufacturers in China can only pass a portion of the increased cost of raw materials through to their customers. As a result, the prices and supplies of soft optical cables and ceramic ferrules directly affect the profitability of the fiber optic patch cord industry in China. According to CCID, the price of ceramic ferrules in China has declined significantly from US\$3 per piece in 2000 to US\$0.44 per piece in 2010. As a result, the production costs of fiber optic patch cords in China have been reduced significantly during the same period. Since 2009, the rapidly growing demand for fiber optic patch cords in China caused a shortage of ceramic ferrules for the first five months in 2009. Currently, these key raw materials are generally available in the markets. CCID estimates that there will not be significant fluctuations in the prices of soft optical cables and ceramic ferrules given the abundant supplies of these raw materials and new entrants in the raw materials markets.

### Competition in the Fiber Optic Patch Cord Market in China

Historically, due to the technological barrier, the Chinese fiber optic patch cord market was dominated by foreign manufacturers, including 3M, Sumitomo, Amphenol, LEMO and Tyco. Taking advantages of the increasing demand by major domestic telecommunications network operators driven by the rapidly increasing telecommunications services users since 2000, the Chinese fiber optic patch cord market develops rapidly and the domestic players have gradually increased their market shares. Since 2007, the demand for fiber optic connections significantly increased due to the large-scale procurement by major telecommunications network operators, as well as the construction and expansion of national, regional and local networks in oil, power, broadcast and television and railway industries. This increase in demand created growing market opportunities for domestic fiber optic patch cord manufacturers and propelled the technological advancement and development of fiber optic patch cords in China. During the same period, most of the foreign manufacturers who have higher production costs exit the Chinese market. As a result, domestic fiber optic patch cord manufacturers currently dominate the Chinese market.

At present, the fiber optic patch cord market in China is intensely competitive, continually evolving and relatively concentrated. The fiber optic patch cord manufacturers in China compete on the basis of quality and technical capabilities, pricing and payment terms, delivery terms, customer services, economies of scale, qualified technical and management personnel and reputation. Competition among fiber optic patch cord manufacturers over the past few years has resulted in the emergence of a few major domestic players, including our company, Sunsea, Centuryman, Longxing and Taiping. According to CCID, there are approximately 30 companies providing fiber optic patch cords in China at the end of 2010. Selling 10,760,000 sets of patch cords in 2010, we are the largest manufacturer of fiber optic patch cords in China in terms of sales volume. The top five fiber optic patch cord manufacturers in China are Sifang Telecom, Sunsea, Centuryman, Longxing and Taiping. These five companies collectively accounted for 41.2% of the total market share in terms of sales volume in 2010, with our company, Sunsea, Centuryman, Longxing and Taiping representing 18.6%, 8.1%, 6.0%, 4.6% and 3.9% of the total market, respectively. According to CCID, in the next few years, manufacturers with more advanced technologies, established customer base, specialized technical personnel and more diversified product offerings

---

## INDUSTRY OVERVIEW

---

will gain bigger market shares and small companies will face an increasingly competitive and challenging business environment. The table below sets out the top five fiber optic patch cord manufacturers in China based on their respective sales volume and market share in 2010:

### Top Five Fiber Optic Patch Cord Manufacturers in China in 2010 in Terms of Sales Volume

Ranking	Company	Sales volume (units in million)	Market share
1	Sifang Telecom	10.8	18.6%
2	Sunsea	4.7	8.1%
3	Centuryman	3.5	6.0%
4	Longxing	2.6	4.6%
5	Taiping	2.2	3.9%
	Total	<u>23.8</u>	<u>41.2%</u>

Source: CCID

### INFORMATION ABOUT CCID

CCID is one of the leading providers of market research and management consultancy services in China listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8235). CCID provides local and overseas clients with comprehensive professional services such as industry analysis, policy studies, market surveys, product testing and certification, and network consulting services. CCID prepared periodic market research reports on various industries including the telecommunications industry. CCID is independent of our company and none of our directors or their associates has any interest in CCID.

---

## REGULATIONS

---

This section sets forth a summary of the most significant laws and regulations that affect our business in China. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

### INDUSTRY REGULATIONS

The products that we manufacture are categorized as telecommunications equipment. The MIIT and its local affiliates are the principal regulators of the telecommunications equipment and related industries in China.

#### Telecommunications Regulations

Pursuant to the PRC Telecommunications Regulations (《中華人民共和國電信條例》), which was promulgated by the State Council and became effective on September 25, 2000, the State Council has implemented a network access licensing system for telecommunications terminal equipment, radio communications equipment and interconnection equipment. Any telecommunications terminal equipment, radio communications equipment and interconnection equipment connecting to a public network must comply with the standards specified by the State Council and obtain a network access license. The MIIT, together with the product quality supervisory division of the State Council, shall issue the catalogue of telecommunications equipment under the network access licensing system. The product quality supervisory division of the State Council and the relevant division of the MIIT are responsible for following up on the product quality of those telecommunications equipment that has received network access licenses, conducting random inspections and announcing the results of such inspections.

#### Network Access Administrative Measures for Telecommunications Equipment

According to the Network Access Administrative Measures for Telecommunications Equipment (《電信設備進網管理辦法》) promulgated and implemented by the MIIT on May 10, 2001, telecommunications equipment manufacturing enterprises shall obtain network access licenses from the MIIT before their products can access the public telecommunications networks and be released for domestic sales in the PRC. The MIIT, in consultation with the product quality supervisory division of the State Council, is responsible for releasing catalogues of telecommunications equipment that needs the network access license.

The MIIT shall regularly publish a list of telecommunications equipment and telecommunications equipment manufacturers that have been granted network access licenses. Manufacturers of telecommunications equipment with network access licenses must, as soon as practicable, register with, and operate subject to the supervision and administration of, the communication administration bureaus of the provinces, autonomous regions and municipalities in which they are located. Telecommunications business operators shall not use any telecommunications equipment that has not been granted a network access license under the network access licensing system.

#### Notice Concerning the Implementation of Product Certification on Optical Cable and Telecommunications Equipment

Pursuant to the Notice Concerning the Implementation of Product Certification on Optical Cable and Telecommunications Equipment (《關於對光電纜等電信設備實行產品認證的通知》) issued on February 9, 2004 by the Telecommunications Administration Division of the Ministry of Information Industry, the predecessor of MIIT, 29 items of telecommunications equipment shall be subject to product certification by a qualified third party starting from March 1, 2004. The product

---

## REGULATIONS

---

authentication certificate issued by such qualified third party may substitute the network access license. Holders of the network access license of the concerned telecommunications equipment may voluntarily exchange for the product authentication certificate, and the network access license shall remain in full force and effective within its term.

### ENVIRONMENTAL PROTECTION

We are subject to a variety of PRC laws and regulations related to environmental protection. The major environmental regulations applicable to us include the PRC Environmental Protection Law (《中華人民共和國環境保護法》), the PRC Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Implementation Rules of the PRC Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法實施細則》), the PRC Law on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》) and the PRC Law on the Prevention and Control of Noise Pollution (《中華人民共和國環境噪聲污染防治法》). Furthermore, there are national and local standards applicable to emissions control, discharges and disposal to surface and subsurface water and noise control.

Pursuant to the PRC Environmental Protection Law, which was promulgated and became effective on December 26, 1989, the environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The provincial governments and the local governments in autonomous regions and municipalities may also promulgate local standards for environmental protection on matters not specified under national standards, provided that local governments must report such standards to the relevant department of environmental protection administration under the State Council for record.

Pursuant to the PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》), which was promulgated on October 28, 2002 and became effective on September 1, 2003, an entity undertaking any construction project must submit an environmental impact study report to the relevant government authority setting forth the impact that the proposed construction project may have on the environment and the measures to prevent or mitigate the impact prior to commencement of construction of the relevant project.

The PRC State Council promulgated the PRC Law on the Prevention and Control of Air Pollution on September 5, 1987 as amended on April 29, 2000, the PRC Law on the Prevention and Control of Water Pollution on May 11, 1984 as amended on February 28, 2008, the PRC Law on the Prevention and Control of Noise Pollution on October 29, 1996 and the PRC Solid Waste Pollution Prevention and Control Law (《中華人民共和國固體廢物污染環境防治法》) on October 30, 1995 as amended on December 29, 2004. These laws set out the regulations governing the prevention and control of air, water, noise and waste pollution in order to protect and improve the environment, safeguard public health and promote economic and social development. In particular, they stipulate concrete requirements for prevention and control of air, water, noise and solid waste pollution for a variety of activities, including residential, industrial and commercial activities.

Companies that fail to comply with the laws on the prevention and control of air, water, noise or solid waste pollution may be subject to warnings, fines, suspension of operations and closure of business, as determined by the relevant environmental protection authorities. Companies that cause air, water, noise or solid waste pollution are obligated to eliminate the pollution and are required to compensate the parties directly affected by the pollution for their losses. Criminal liabilities may also be imposed for serious violations.



---

## REGULATIONS

---

### LABOR LAW

The principal labor laws and regulations in the PRC include the PRC Labor Law (《中華人民共和國勞動法》), the PRC Labor Contract Law (《中華人民共和國勞動合同法》), the Implementation Rules of the PRC Labor Contract Law (《中華人民共和國勞動合同法 實施條例》), the Work-related Injury Insurance Regulations (《工傷保險條例》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》) and the Interim Regulations on the Collection and Payment of Social Insurance Fees (《社會保險費徵繳暫行條例》).

Pursuant to the PRC Labor Law and the PRC Labor Contract Law, employers must enter into written labor contracts with employees in order to establish employment relationship. Employers must compensate their employees with wages in an amount equal to or above the local minimum wage standards, establish a labor safety and workplace sanitation system, strictly comply with state rules and standards and provide employees with appropriate training on workplace safety. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in imposition of fines and other administrative liabilities, and incur criminal liabilities in the case of serious violations.

### PRODUCTION SAFETY LAW

The principal law on work safety is the PRC Production Safety Law (《中華人民共和國安全生產法》) promulgated by the Standing Committee of the National People's Congress on June 29, 2002, effective on November 1, 2002. Pursuant to the PRC Production Safety Law, manufacturing companies should establish a control system for work safety and improve work conditions as provided by the Production Safety Law and relevant laws, administrative regulations and national standards or industrial specifications. Manufacturing companies that do not meet such standards or industrial specifications are not allowed to engage in manufacturing activities.

Violation of the PRC Production Safety Law will cause various penalties, including being ordered to take corrective actions within a specified time, suspension of business, confiscation of illegal proceeds and payment of fine in accordance with the particular circumstances. In serious circumstances, business licenses will be revoked or criminal offences will be charged. Enterprises and persons directly responsible for the offences may be subject to criminal liability.

### PRODUCT QUALITY LAW

The PRC Product Quality Law (《中華人民共和國產品質量法》) was promulgated by the Standing Committee of the National People's Congress on February 22, 1993 and amended on July 8, 2000. Under the PRC Product Quality Law, industrial products that impose possible health or safety threats to human being or property must comply with relevant national and industry standards. Production and sale of industrial products that are inconsistent with such standards and requirements are prohibited. The State Council is authorized to promulgate specific administrative measures with respect to the matter.

Violations of the Product Quality Law will result in various penalties, including being ordered to take corrective actions within a specified time, suspension of business, confiscation of illegal proceeds and payment of fine in accordance with the particular circumstances. In serious circumstances, business licenses will be revoked and criminal offences will be charged. Enterprises and persons directly responsible for the offences may be subject to criminal liability.

---

# REGULATIONS

---

## STANDARDIZATION LAW

In accordance with the PRC Standardization Law (《中華人民共和國標準化法》), which was promulgated by the Standing Committee of the National People's Congress on December 29, 1988 and became effective on April 1, 1989, standards shall be formulated in respect of the following technical requirements: (i) requirements on varieties, specifications, quality, grades or safety and sanitary of industrial products; (ii) the design, production, inspection, packing, storage, transportation and operation methods of industrial products as well as the safety and sanitary requirements thereof in the process of production, storage and transportation; and (iii) other technical requirements that need to be standardized. National standard shall be established on those technical requirements which need to be unified throughout the country. The standardization administration department under the State Council shall be responsible to establish national standards. In the absence of national standards, industry standards may be formulated where technical requirements for a certain industry need to be unified within the PRC. In the absence of both national and industry standards, local standard may be formulated where safety and sanitary requirements for industrial products need to be unified within a province, an autonomous region or a municipality. In the event that neither national standard nor industry standard would be applicable to any products manufactured by an enterprise, an enterprise standard shall be formulated to serve as the production standard of such entity. The enterprise standard in relation to any product of the enterprise shall be submitted to the local standardization regulatory authority as well as relevant administration department for record. Both national standards and industry standards can be categorized as compulsory standards or optional standards. Standards either regarding the health or safety of human life and property or being defined as compulsory by laws and administrative regulations shall be compulsory, and the rest shall be optional.

## INTELLECTUAL PROPERTY

### Patent Law

In accordance with the PRC Patent Law (《中華人民共和國專利法》) promulgated on March 12, 1984, as amended by the Standing Committee of the National People's Congress on December 27, 2008 and became effective on October 1, 2009, the patent administration division of the State Council shall be responsible for the patent administration throughout China, and shall accept and examine patent applications and grant patent rights in accordance with laws. The patent administration department of the people's governments of provinces, autonomous regions or municipalities shall be responsible for the patent administration within their respective own jurisdictions.

The Chinese patent system adopts a "first to file" principle, which means that, where more than one person files a patent application for the same invention, a patent will be granted to the person who first filed the application. In addition, China requires absolute novelty in order for an invention to be patentable. Pursuant to this requirement, any written or oral publication, demonstration or use prior to the filing of the patent application prevents an invention from being patented in China. Generally, only one patent right will be granted for each invention-creation. However, if an applicant applies for both the invention patent and utility-model patent for one invention creation on the same day, and the applicant waives a previously granted utility-model patent right, then a patent for invention may be granted to the applicant.

The patent right for inventions shall be valid for twenty years, and the patent right for utility models and designs shall be valid for ten years, in both case from the initial filing date of the patent application.

---

## REGULATIONS

---

### Trademark Law

In accordance with the PRC Trademark Law (《中華人民共和國商標法》) promulgated on August 23, 1982, as amended by the Standing Committee of the National People's Congress on October 27, 2001 and effective on December 1, 2001, the Trademark Office of the administrative department for industry and commerce under the State Council shall be responsible for the registration and administration of trademarks in China. The administrative department for industry and commerce under the State Council has established a Trademark Review and Adjudication Board to be responsible for handling trademark disputes. Any individual, legal person or other entity that needs to acquire the right to exclusive use of a trademark for the commodities produced, manufactured, processed, selected or marketed shall apply to the Trademark Office for trademark registration.

Like patents, China has adopted a "first-to-file" principle with respect to trademarks. If two or more applicants apply for registration of identical or similar trademarks for the same or similar commodities, the application that was first filed would receive preliminary approval and public announcement. For applications that were filed on the same day, the trademark that was first used shall obtain preliminary approval and shall be publicly announced.

Registered trademarks shall be valid for ten years from the date when the registration is approved. If a registrant needs to continue to use the registered trademark after its expiration, an application for registration renewal shall be made within six months before the expiration date. If the registrant fails to apply in a timely manner, a grace period of an additional six months may be granted. If no application has been filed before the grace period expires, the registered trademark shall be deregistered. Each renewal of registration shall be valid for ten years.

### SUPERVISION AND ADMINISTRATION OVER FOREIGN EXCHANGE

#### Foreign Currency Exchange Control

The principal regulations governing foreign currency exchange in China are the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》), which was promulgated on January 29, 1996 and became effective on April 1, 1996, as amended on August 1, 2008 and became effective on August 5, 2008, the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) promulgated by the People's Bank of China on June 20, 1996 and became effective on July 1, 1996. Under the said regulations, for current account items such as trade and service-related foreign exchange transactions, entities or individuals inside China can either retain their foreign exchange income or sell it to financial institutions engaged in the business of foreign exchange settlements and sales; additionally, they can make foreign exchange payments with their own foreign exchange or with foreign exchange purchased from a financial institution engaging in the business of foreign exchange settlements and sales. Prior approval from the SAFE is required if entities or individuals wish to retain their foreign exchange income under the capital account or sell such income to a financial institution engaging in the business of foreign exchange settlements and sales, unless it is provided otherwise by the State. Also, foreign exchange payments by entities or individuals under the capital account shall be made by their own foreign exchange or with foreign exchange purchased from a financial institution engaging in the business of foreign exchange settlements and sales, and such payment shall be subject to prior approval by foreign exchange administrative authorities in accordance with PRC rules and regulations. Accordingly, prior approval from the SAFE is required for a foreign invested enterprise to accept direct investments, capital contributions or shareholder loans from outside China, but no prior approval from the SAFE is required for a foreign invested enterprise to convert after-tax dividends into foreign exchange and to remit abroad such foreign exchange from their bank accounts in China.

---

## REGULATIONS

---

The PBOC publishes the Renminbi exchange rate against other major currencies. The PBOC rate is set by reference to the Renminbi trading price of the previous day on the inter-bank foreign exchange market compared to the trading prices of other major currencies. When conducting foreign exchange transactions, the authorized financial institutions may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

On October 21, 2005, the SAFE issued the Notice on Exchange Control Issues Relating to Financing and Reverse Investment by Domestic Residents through Offshore Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which is called the SAFE Circular No. 75. According to this notice, domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority. Domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle or who have raised funds offshore after such contribution must conduct foreign exchange registration or filing for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority. Domestic residents who are the shareholders of an offshore special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase or decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular No. 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity. If any PRC shareholder of any offshore company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore company may also be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws on the PRC shareholder(s) concerned for evasion of applicable foreign exchange restrictions. PRC residents who control our company from time to time are required to register with the SAFE in connection with their investments in our company.

Grandall Legal Group, our PRC legal advisor, has advised us that our beneficial shareholders who are PRC residents, namely Mr. Zhao Bing, Mr. Meng Yuxiao, Ms. Shi Shuran, Mr. Zhang Yonglu, Mr. Deng Xuejun and Mr. Han Liren (collectively the “**PRC Beneficial Shareholders**”) need to submit applications to the SAFE Hebei Branch for foreign exchange registration. However, the PRC Beneficial Shareholders failed to submit the SAFE applications within the prescribed timeframe. The PRC Beneficial Shareholders informed us that they submitted applications to the SAFE for foreign exchange registration on April 6, 2010.

According to Grandall Legal Group, our PRC legal advisor, the PRC Beneficial Shareholders may face adverse legal consequences as described above for their failure to submit the SAFE applications within the prescribed timeframe. The SAFE Hebei Branch instructed the PRC Beneficial Shareholders to pay a fine of RMB30,000 each as a result of their failure to submit their SAFE applications within the prescribed timeframe. The PRC Beneficial Shareholders paid such fine on July 20, 2010 and made their registrations with the SAFE Hebei Branch on July 23, 2010. Grandall Legal Group, our PRC legal advisor, has advised us that despite the PRC Beneficial Shareholders’ failure to submit the SAFE applications within the prescribed timeframe, their SAFE

---

## REGULATIONS

---

registrations shall be effective upon completion of the SAFE foreign exchange registration. To the best knowledge of Grandall Legal Group, there are no practical effects with respect to the Listing and Global Offering for our company, notwithstanding the PRC Beneficial Shareholders' failure to submit the SAFE applications within the prescribed timeframe.

### Acquisition of Domestic Enterprises by Foreign Investors

On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce (中華人民共和國商務部), the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the State Administration of Taxation (國家稅務總局), the PRC State Administration of Industry & Commerce (中華人民共和國國家工商行政管理總局), the CSRC and the SAFE, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which became effective on September 8, 2006 and amended on June 22, 2009. Under the M&A Rules, the listing of offshore SPVs, such as overseas companies that are directly or indirectly controlled by PRC onshore companies and/or individuals for the purpose of overseas listing of equity interests of onshore companies actually owned by such PRC companies and/or individuals, is subject to the approval of the CSRC. On September 21, 2006, the CSRC issued the Regulations regarding Indirect Issuance of Stock Abroad or Listing of Securities at Overseas Markets for Trading by Domestic Enterprises (《境內企業間接到境外發行證券或者將其證券在境外上市交易》), which set forth the criteria, process and time required for obtaining such approval from the CSRC.

The M&A Rules contain provisions which prohibit the use of trusts, nominees, or any other means by parties concerned to evade the requirements under the M&A Rules.

Under Article 11 of the M&A Rules, domestic companies, enterprises or natural persons who merge with or acquire domestic companies related to them through the incorporation or control of overseas companies must submit an application to the Ministry of Commerce for approval. The parties concerned may not evade such requirement by using a foreign-invested enterprise to make a domestic investment or by any other means.

Under Article 15 of the M&A Rules, the parties involved in a merger or acquisition must disclose their related party relationship (if any) with any other parties involved in the merger or acquisition. If there are two parties who are effectively controlled by the same controller, the parties concerned must disclose the identity of their controller to the relevant approval authorities. The parties concerned must also provide an explanation of the purpose of the merger or acquisition and as to whether the valuation of the transaction is in line with fair market value. The parties concerned may not evade such requirement through the use of trusts, nominees, or by any other means.

Based on the current PRC laws, rules and regulations, Grandall Legal Group, our PRC legal advisor, is of the opinion that the proposed initial public offering of our Shares and the proposed Listing do not require the approval of CSRC or other PRC governmental authorities for the following reasons:

- When our company purchased the then entire registered share capital of Sifang Telecom from the Pre-reorganization Shareholders, the Initial Shareholder of our company was an Independent Third Party who was neither affiliated with nor controlled by Sifang Telecom and/or the Pre-reorganization Shareholders. As a result, this share transfer was not subject to Article 11 of the M&A Rules.



---

## REGULATIONS

---

- The transfer of our shares from the Initial Shareholder to Kemy in September 2007 was not subject to the M&A Rules because (i) the M&A Rules apply to foreign investors who acquire or merge with domestic enterprises; and (ii) this share transfer was a transfer of shares in a foreign body corporate, namely, a Cayman Islands incorporated company, and took place outside the PRC<sup>1</sup>.

### DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the PRC Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》), which was promulgated on April 12, 1986 and amended on October 31, 2000, and the Implementation Rules on PRC Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法實施細則》), which was promulgated by the State Council on December 12, 1990 and amended on April 12, 2001.

Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, and as determined in accordance with PRC GAAP and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profit based on PRC GAAP each year to its statutory reserve fund until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a wholly foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

### TAX

#### Enterprise Income Tax

Prior to January 1, 2008, PRC enterprise income tax was calculated based on taxable income determined under the applicable PRC law and regulations (the “**Old EIT Law**”). Under the Old EIT Law, foreign-invested enterprises established in China were generally subject to an income tax rate of 33% (consisting of 30% enterprise income tax and 3% local income tax). However, the Old EIT Law provided certain preferential tax treatments to qualified foreign invested enterprises. For instance, the enterprise income tax rate is lowered to 15% for a foreign-invested enterprise located in a special economic zone or if it is classified as a “high-technology enterprise” located in a national high-tech zone. In accordance with the tax laws and regulations effective until December

---

1 Our Company’s PRC legal advisor, Grandall Legal Group, has confirmed that the transfer of our shares from the Initial Shareholder to Kemy was not subject to the M&A rules notwithstanding the fact that Kemy is an offshore enterprise established by PRC nationals. According to Grandall Legal Group, the M&A rules apply to merger and acquisition of domestic enterprises by foreign investors only. In this context, a merger and acquisition refers to: (i) the purchase of an equity interest in a non-foreign-invested enterprise (i.e., a domestic enterprise) in the PRC or the subscription for capital increase of a domestic enterprise by a foreign investor for the purposes of converting a domestic enterprise into a foreign-invested enterprise; or (ii) the establishment of a foreign-invested enterprise in the PRC and the purchase and operation by the said foreign-invested enterprise of assets belonging to a domestic enterprise; or (iii) the purchase of assets owned by a domestic enterprise by a foreign investor and the use and operation of such assets to establish a foreign-invested enterprise in the PRC. Since both Kemy and Sapphire are offshore enterprises established in Cayman Islands and since the share transfer of Sapphire was effected between two offshore enterprises, such a share transfer does not fall within the ambit of the M&A rules. Furthermore, the owners of Kemy, Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu, Mr. Deng Xuejun, Mr. Meng Yuxiao and Mr. Han Liren have completed foreign exchange registration with SAFE Hebei Branch. According to the official form and instructions issued by the State Administration of Foreign Exchange on the Foreign Exchange Registration of Personal Overseas Investments made by PRC Residents (國家外匯管理局制定的《境內居民個人境外投資外匯登記表》填表說明), the SAFE Hebei Branch would be required to notify the Department of Commerce of Hebei Province about such a registration.

---

## REGULATIONS

---

31, 2007, foreign invested manufacturing enterprises scheduled to operate for a period not less than ten years were exempted from paying state income tax for two years starting from its first profit making year and is allowed a 50% reduction in its tax rate in the third, fourth and fifth years.

On March 16, 2007, the National People's Congress of China enacted the New EIT Law, which became effective on January 1, 2008. According to the New EIT Law, a uniform enterprise income tax rate of 25% and uniform tax deduction standards will be applied equally to both domestic-invested enterprises and foreign-invested enterprises. Enterprises established prior to March 16, 2007 eligible for preferential tax treatment according to the then prevailing tax laws and administrative regulations shall, under the regulations of the State Council, gradually become subject to the New EIT Law rate over a five-year transition period starting from the date of effectiveness of the New EIT Law. Pursuant to the Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies (《國務院關於實施企業所得稅過渡優惠政策的通知》) promulgated by the State Council and became effective on December 26, 2007, from January 1, 2008, preferential tax policies enjoyed by certain enterprises, such as the “two-year exemption and three-year half rate” policy and the “five-year exemption and five-year half rate” policy, shall continue to be enjoyed by such enterprises in the manner and for the period specified in relevant tax laws, administrative rules and other documents following the Implementation Rules of the New EIT Law. For enterprises that do not benefit from such preferential policies due to their non-profit making status, they will enjoy such preferential tax treatment beginning January 1, 2008 until the expiry of such period.

Furthermore, under the New EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25% on its worldwide income. Pursuant to the Implementation Rules of the New EIT Law promulgated by the State Council on December 6, 2007, “de facto management bodies” means the organizations that actually and comprehensively manage and control the production and operation, staff, account, property and other aspects of enterprises. In addition, under the New EIT Law and the Implementation Rules of the New EIT Law (《中華人民共和國企業所得稅法實施條例》), dividends paid by our PRC subsidiary to us may be subject to a 10% withholding tax.

### **Value-Added Tax**

Pursuant to the PRC Value-Added Tax Provisional Regulation (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on December 13, 1993, which was amended on November 10, 2008 and became effective on January 1, 2009, and the Detailed Rules for the Implementation of the PRC Interim Regulations on Value-Added Taxes (《中華人民共和國增值稅暫行條例實施細則》), promulgated on December 25, 1993, which was amended on December 15, 2008 and became effective on January 1, 2009, all entities and individuals that are engaged in the businesses of sales of goods, provision of repair and placement services and importation of goods into China are generally subject to a value-added tax, or VAT, at a rate of 17% (with the exception of certain goods which are subject to a rate of 13%) of the gross sales proceeds received, less any VAT already paid or borne by the taxpayer on the goods or services purchased by it and utilized in the production of goods or provision of services that have generated the gross sales proceeds.



---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### BUSINESS MILESTONES

We set out below a chronological overview of the key business milestones of our Group:

- |               |   |
|---------------|---|
| April 1998    | Sifang Telecom was founded in Shijiazhuang, Hebei Province  |
| January 2001  | Sifang Telecom's FC fiber optic patch cords were granted the "Network Access License for Telecommunications Equipment" (電信設備進網許可證) by the Ministry of Information Industry of the PRC (中華人民共和國信息產業部), the predecessor of MIIT, and Sifang Telecom began to supply fiber optic patch cords to one of the major telecommunications network operators in China as a qualified supplier |
| February 2002 | Sifang Telecom was granted the IS9001: 2000 Quality Management System Certificate (泰爾管理體系認證證書) by the TLC Certification Center  |
| April 2003    | The development of FC fiber optic patch cords by Sifang Telecom was certified as a National Torch Program Project (國家級火炬計劃) by the PRC Ministry of Science and Technology (中華人民共和國科學技術部)  |
| 2004          | The development of FC fiber optic patch cords by Sifang Telecom was certified by NDRC as a specially supported program in information industry for technology development and industry upgrading  |
| April 2006    | The development of FC fiber optic patch cords by Sifang Telecom was certified by the Hebei Key Construction Leadership Team Office (河北省重點建設領導小組辦公室) as a key development project of Hebei Province  |
| October 2007  | Sifang Telecom's production capacity of fiber optic patch cords increased to 1.0 million sets per annum   |
| June 2008     | Sifang Telecom was granted an "Outstanding Award for Optical Communications Solutions" (2008年度光通信優秀解決方案獎) by China Communications Weekly (通信產業報), China Information World (中國計算機報), China Electronics News (中國電子報), CCID net (www.ccidnet.com) (賽迪網) and ChinaCIE net (www.chinacie.com.cn) (中國通信器材網)   |
| August 2008   | Sifang Telecom relocated to its existing headquarters with an area of 192,030 square meters of land   |
| December 2008 | Sifang Telecom was granted the "High-tech Enterprise" (高新技術企業) status by the Science and Technology Division of Hebei Province (河北省科學技術廳), Finance Bureau of Hebei Province (河北省財政廳), Office of the State Administration of Taxation of Hebei Province (河北省國家稅務局) and Local Taxation Bureau of Hebei Province (河北省地方稅務局)  |

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

- May 2009 Sifang Telecom was recognized as one of the “Top 50 Chinese Communications Equipment Suppliers in 2008” (2008中國通信設備供應商50強) by China Communications Weekly (通信產業報社), Joint Center for China Management Cases (中國管理案例聯合中心) and Sohu IT
- January 2010 Sifang Telecom was named one of the “Top 10 Satisfactory and Competitive Brands in the Fiber Optic and Cable Communications Industry of China” (中國通信光纖光纜行業用戶滿意十大競爭力品牌) by institutions that include China Institute of Management Science (中國管理科學研究院), China International Market Association (中國國際市場協會), National High-tech Industry Brand Promotion Committee (全國高科技產業品牌推進委員會), China’s First Brand Research Center (中國第一品牌研究中心), and several media
- March 2010 Sifang Telecom was named a “Model Enterprise for Quality, Safety and Authenticity” (質量安全保真誠信企業) by the Anti-counterfeiting Association affiliated with the Bureau of Quality and Technical Supervision of Hebei Province (河北省質量技術監督局防偽行業協會)
- May 2010 Sifang Telecom was named one of the “Top 50 Chinese Communications Equipment and Technology Suppliers 2009-2010” (2009-2010中國通信設備技術供應商50強) by China Communications Weekly (通信產業報社), Joint Center for China Management Cases (中國管理案例聯合中心) and Sohu IT (www.it.sohu.com)
- May 2010 Sifang Telecom was named a “Satisfactory Enterprise in the Communications Industry of China” (中國通信產業用戶滿意企業) by China Communications Weekly (通信產業報社), Joint Center for China Management Cases (中國管理案例聯合中心) and Sohu IT (www.it.sohu.com)

### HISTORY OF OUR PRC OPERATING SUBSIDIARY

We commenced operations on April 9, 1998 when Sifang Telecom, our PRC operating subsidiary, was established as a limited liability company in China with a registered capital of RMB500,000 by Mr. Zhao Li<sup>1</sup>, Mr. Jin Shuo<sup>2</sup> and Mr. Gao Zongqiang<sup>3</sup>. Mr. Zhao Li, Mr. Jin Shuo and Mr. Gao Zongqiang held 60%, 20% and 20%, respectively, of the then total registered capital of Sifang Telecom.

---

1 Mr. Zhao Li is the brother of Mr. Zhao Bing.

2 Mr. Jin Shuo was an Independent Third Party as of the Latest Practicable Date to the best knowledge of our directors.

3 Mr. Gao Zongqiang was an Independent Third Party as of the Latest Practicable Date to the best knowledge of our directors.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

On September 17, 1999, Mr. Zhao Li transferred all his interest in Sifang Telecom to his brother Mr. Zhao Bing<sup>4</sup>, the chairman of our board of directors and an executive director of our company, for a mutually agreed consideration of RMB652,977, representing a premium of RMB352,977 to the original capital contribution provided by Mr. Zhao Li. At the same time, Sifang Telecom's registered capital was increased from RMB500,000 to RMB3,000,000, upon the payment of the increased registered capital of RMB2,500,000 by Mr. Zhao Bing. As a result, Mr. Zhao Bing, Mr. Jin Shuo and Mr. Gao Zongqiang held 93.34%, 3.33% and 3.33%, respectively, of the then total registered capital of Sifang Telecom.

On February 25, 2002, the registered capital of Sifang Telecom was increased from RMB3,000,000 to RMB20,000,000. The increased registered capital was contributed by Mr. Zhao Bing, Mr. Gao Zongqiang and Mr. Jin Shuo, who, as a result, held 69.8%, 17.6% and 12.6%, respectively, of the then registered capital of Sifang Telecom.

On March 4, 2004, Mr. Gao Zongqiang transferred all his interest in Sifang Telecom to Ms. Shi Shuran<sup>5</sup>, for a consideration of RMB3,520,000<sup>6</sup>, representing the original capital contribution provided by Mr. Gao Zongqiang and Mr. Jin Shuo transferred all his interest in Sifang Telecom to Mr. Zhao Yongxuan<sup>7</sup> for a consideration of RMB2,520,000<sup>8</sup>, representing the original capital contribution provided by Mr. Jin Shuo. Upon the completion of these share transfers, Mr. Zhao Bing, Ms. Shi Shuran and Mr. Zhao Yongxuan held 69.8%, 17.6% and 12.6%, respectively, of the then total registered capital of Sifang Telecom.

On April 28, 2005, Sifang Telecom increased its registered capital from RMB20,000,000 to RMB50,000,000. Mr. Zhao Bing, Ms. Shi Shuran and Mr. Zhao Yongxuan provided cash consideration of RMB20,000,000, RMB5,000,000<sup>9</sup> and RMB5,000,000<sup>10</sup> respectively for the increase in registered capital. After the capital increase, Mr. Zhao Bing, Ms. Shi Shuran and Mr. Zhao Yongxuan held 67.92%, 17.04% and 15.04%, respectively, of the then total registered capital of Sifang Telecom.

On June 29, 2006, Mr. Zhao Yongxuan transferred all his interest in Sifang Telecom to Mr. Meng Yuxiao<sup>11</sup>, Mr. Zhang Yonglu<sup>12</sup> and Ms. Feng Xiaomei<sup>13</sup> for a mutually agreed aggregate cash consideration of RMB7,520,000, representing the original capital contribution of RMB2,520,000 and cash contribution of RMB5,000,000 to the increase in capital of Sifang Telecom on April 28,

---

4 Mr. Zhao Bing is the chairman of our board of directors and an executive director of our company and the chairman of the board of directors of Sifang Telecom. Mr. Zhao Bing is also one of the Controlling Shareholders.

5 Ms. Shi Shuran is the mother of Mr. Zhao Bing. Ms. Shi Shuran is also one of the Controlling Shareholders.

6 The acquisition of interest in Sifang Telecom by Ms. Shi Shuran was not funded by Mr. Zhao Bing.

7 Mr. Zhao Yongxuan is Mr. Zhao Bing's uncle.

8 The acquisition of interest in Sifang Telecom by Mr. Zhao Yongxuan was not funded by Mr. Zhao Bing.

9 Ms. Shi Shuran's contribution to the increase in capital of Sifang Telecom was not funded by Mr. Zhao Bing.

10 Mr. Zhao Yongxuan's contribution to the increase in capital of Sifang Telecom was not funded by Mr. Zhao Bing.

11 Mr. Meng Yuxiao is an executive director of our company and a director and the vice general manager of Sifang Telecom.

12 Mr. Zhang Yonglu is a director and the general manager of Sifang Telecom.

13 Ms. Feng Xiaomei was an Independent Third Party as of the Latest Practicable Date to the best knowledge of our directors.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

2005 provided by Mr. Zhao Yongxuan. Upon the completion of the share transfers, the Pre-reorganization Shareholders<sup>14</sup>, namely Mr. Zhao Bing, Ms. Shi Shuran, Mr. Meng Yuxiao, Mr. Zhang Yonglu and Ms. Feng Xiaomei held 67.92%, 17.04%, 5.04%, 5% and 5%, respectively, of the then total registered capital of Sifang Telecom. For the corporate structure immediately prior to the Reorganization, please refer to the first diagram under “– Corporate Structure” in this section.

### GROUP REORGANIZATION

#### Reorganization Process

On August 7, 2006, our company was incorporated as a company with limited liability under the laws of the Cayman Islands by Offshore Incorporations (Cayman) Limited, with an initial issued share capital of US\$1,000 divided into 1,000,000 ordinary shares of US\$0.001 each. As of the date of our incorporation, our company issued one share to Offshore Incorporations (Cayman) Limited, which was immediately transferred to the Initial Shareholder, Ms. Wen Yan, for a consideration of US\$0.001. As of the same date, our company allotted and issued an additional 999,999 Shares to the Initial Shareholder for a consideration of US\$999.999. As a result, the Initial Shareholder held 1,000,000 Shares, representing 100% of the then issued share capital of our company.

The Initial Shareholder, a Canadian citizen, was born in Shijiazhuang, China. Since August 7, 2006 and until the Latest Practicable Date and to the best knowledge of our directors, save for her shareholding in our company during the period from August 7, 2006 to September 26, 2007 as disclosed in this section, the Initial Shareholder had been an Independent Third Party who was neither affiliated with nor controlled by the Pre-reorganization Shareholders, our Group, its shareholders, directors, senior management or their respective associates. To the best knowledge of our directors, the Initial Shareholder had been holding the Shares in our company as beneficial owner and not on trust for the Pre-reorganization Shareholders or any other person.<sup>15</sup>

On August 16, 2006, our company entered into a share purchase agreement with the Pre-reorganization Shareholders. Pursuant to this agreement, the Pre-reorganization Shareholders transferred their respective shares in Sifang Telecom to our company for an aggregate cash consideration of RMB60,760,300, which was determined on an arm's length basis with reference to the net asset value of Sifang Telecom as of July 31, 2006 as stated in a valuation report prepared by an independent PRC valuation firm for the purpose of such share purchase. Sifang Telecom became our wholly owned subsidiary on October 20, 2006.

Given that the Initial Shareholder of our company was an Independent Third Party who was neither affiliated with nor controlled by Sifang Telecom and/or the Pre-reorganization Shareholders, our company's PRC legal advisor, Grandall Legal Group, is of the view that this share transfer was not subject to Article 11 of the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》 (the “**M&A Rules**”).

---

14 The Pre-reorganization Shareholders are the five individual shareholders of Sifang Telecom prior to the Reorganization, namely, Mr. Zhao Bing, Ms. Shi Shuran, Mr. Meng Yuxiao, Mr. Zhang Yonglu and Ms. Feng Xiaomei.

15 The Initial Shareholder and Mr. Zhang Hongliang were friends. They became acquainted in the late 1980s. The Initial Shareholder emigrated to Canada from Shijiazhuang, China in the 1990s. The Initial Shareholder returned to Shijiazhuang, China in 2006 to seek investment opportunities and became acquainted with the Pre-reorganization Shareholders and our Group through Mr. Zhang Hongliang, who was acquainted with Mr. Meng Yuxiao, one of the Pre-reorganization Shareholders.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

Our Group has also obtained official confirmation from the Department of Commerce of Hebei Province (河北省商務廳) on February 8, 2010 that the share purchase agreement between our company and the Pre-reorganization Shareholders dated August 16, 2006 was not subject to the “round-trip investment” (返程投資) rules in the M&A Rules. As such, the share transfer relating to Sifang Telecom only required the approval of the Department of Commerce of Hebei Province (河北省商務廳)<sup>16</sup>.

For further details, please refer to the section headed “Regulations – Supervision and Administration over Foreign Exchange – Acquisition of Domestic Enterprises by Foreign Investors” of this prospectus.

Pursuant to the share purchase agreement, our company agreed to pay the Pre-reorganization Shareholders 60% of the consideration of RMB36,456,200 (the “**First Portion Consideration**”) no later than April 20, 2007 and the rest of the consideration of RMB24,304,100 (the “**Second Portion Consideration**”) no later than October 20, 2007.

At the time of entering into the August 2006 share purchase agreement, the Pre-reorganization Shareholders were concerned about the uncertain industry outlook of the PRC telecommunications sector in light of the industry-wide consolidation of telecommunications network operators in the PRC that took place between 2005 and 2006. The Pre-reorganization Shareholders believed that the Initial Shareholder considered the opportunity to invest in Sifang Telecom to be attractive. Given that the Pre-reorganization Shareholders were concerned about the industry outlook of the PRC telecommunications sector, and that the Pre-reorganization Shareholders were informed by the Initial Shareholder that Sifang Telecom could continue to be managed under the leadership of Mr. Zhao Bing, Mr. Meng Yuxiao and Mr. Zhang Yonglu, three of the Pre-reorganization Shareholders, the Pre-reorganization Shareholders agreed to sell their respective shares in Sifang Telecom to our company.

Following the acquisition of the interest in Sifang Telecom and prior to her disposal of our company’s shares in September 2007, the Initial Shareholder was not involved in the daily operations of Sifang Telecom. Since the Initial Shareholder was based in Canada, she nominated Mr. Zhang Hongliang to the board of directors of our company as her nominee in August 2006. Mr. Zhang Hongliang, who resided in Beijing, China, had been participating in the board meetings of our company and visited Sifang Telecom periodically to meet with members of its senior management to oversee the business operations of Sifang Telecom.

---

<sup>16</sup> The Department of Commerce of Hebei Province is not equivalent to the PRC Ministry of Commerce, but the Department of Commerce of Hebei Province is the provincial counterpart of the PRC Ministry of Commerce and is the appropriate authority to provide the above confirmation on the M&A Rules because (i) there is no related party relationship between the Initial Shareholder and the Pre-reorganization Shareholders; and (ii) the acquisition of Sifang Telecom by our company only requires the approval of the Department of Commerce of Hebei Province.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

To the best knowledge of our directors, the Initial Shareholder intended to fully settle the consideration upon the acquisition of the interest in Sifang Telecom in August 2006. However, from January to March 2007, the Initial Shareholder had indicated to Mr. Zhao Bing and Mr. Meng Yuxiao, two of the Pre-reorganization Shareholders, on several occasions that she encountered difficulties in providing funds for our company to pay the First Portion Consideration<sup>17</sup>. In order to avoid defaulting on the payment of the First Portion Consideration by our company, the Pre-reorganization Shareholders started to look for investors in our company in early 2007. The Initial Shareholder was aware of and consented to negotiations taking place between the Pre-reorganization Shareholders and potential investors for the subscription of shares in our company. To the best knowledge of our directors and according to Mr. Zhang Hongliang, the Initial Shareholder's nominee to the board of directors of our company, the Initial Shareholder did not participate in the negotiations because she was based in Canada at that time and was no longer keen on the investment in Sifang Telecom<sup>18</sup>.

The First Portion Consideration and the Second Portion Consideration in an aggregate amount of RMB60,760,300 was eventually paid by our company using funds from the issue of shares in our company to two investors, namely Wakee and Cathay, and not by funds from the Initial Shareholder.

### *Investment by Wakee*

On April 9, 2007, our company entered into a share purchase agreement with Wakee<sup>19</sup>, under which our company allotted and issued to Wakee 234,568 ordinary shares, representing 19% of the then issued share capital of our company, for a consideration of US\$7.76 million (representing US\$33.08 per Share) which represented a mutually agreed price-to-earnings ratio of 4 times, based on the performance benchmark of our company for the financial year ended December 31, 2007 of US\$10 million as agreed between Wakee and our company. Ms. Ou Shujin, the sole shareholder of Wakee, is the wife of Mr. Song Zhiping, a non-executive director of our company. Ms. Ou Shujin became acquainted with our Group through Mr. Song Zhiping's acquaintance with Mr. Meng Yuxiao, an executive director of our company. Mr. Meng Yuxiao introduced our Group and presented the investment opportunity to Wakee. Wakee paid the consideration of US\$7.76 million in two tranches. The first tranche of the consideration from Wakee, being US\$4,684,853.50, was paid in March 2007. As confirmed by Wakee and Ms. Ou Shujin, since Wakee was newly incorporated during February 2007 and did not have a bank account at that time, Wakee had asked one of Mr. Song Zhiping and Ms. Ou Shujin's trading partners in China to arrange for payment to our company on Wakee's behalf, and directly into our bank account in Hong Kong between March 1, 2007 and March 29, 2007. Our company's PRC legal advisor, Grandall Legal Group, has advised

---

17 Mr. Meng Yuxiao of our Group verbally informed the relevant personnel at the Department of Commerce of Hebei Province in early February 2010 that our company was unable to settle the consideration for the acquisition of Sifang Telecom.

18 Mr. Zhang Hongliang has also confirmed that he was not asked to represent the Initial Shareholder at the negotiations taking place between the Pre-reorganization Shareholders and potential investors for the subscription of shares in our company.

19 Wakee is a company incorporated on February 15, 2007 under the laws of the Cayman Islands with limited liability. Wakee is engaged in the business of investment holding with our company being its only investment and business activity. It is wholly owned by Ms. Ou Shujin, an American citizen. Ms. Ou Shujin is the wife of Mr. Song Zhiping, a non-executive director of our company. Ms. Ou Shujin and Mr. Song Zhiping also carry on the businesses of and have investments in international trade, international transport and real estate development.



---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

that there were no requirements for approvals to be obtained from SAFE for the remittance of US\$4,684,853.50 to our company's bank account in Hong Kong because the payment of the funds was made from outside the PRC. The second tranche of the consideration from Wakee, being US\$3,075,145.20, was paid in March 2008 from Wakee's bank account in Hong Kong to our bank account in Hong Kong. Wakee became our shareholder on April 18, 2007.

Our company requested for potential investors to inject capital into our bank account in March 2007 before entering into any formal share purchase agreement due to the tight timeframe for the payment of the First Portion Consideration to the Pre-reorganization Shareholders. In light of the presence of other potential investors, Wakee decided to take up our proposal and paid the first tranche of consideration in March 2007.

The portion of the funds raised from Wakee was used to pay the First Portion Consideration in two tranches on March 16, 2007 and on March 30, 2007, respectively. The remainder of the funds raised from Wakee's subscription was used to increase the registered capital of Sifang Telecom from RMB50,000,000 to RMB71,000,000 on December 18, 2008 and further to RMB116,631,524 on November 30, 2009.

### *Investment by Kemy*

On September 3, 2007, Kemy<sup>20</sup> was incorporated under the laws of the Cayman Islands. On the same date, Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu, Mr. Deng Xuejun<sup>21</sup>, Mr. Meng Yuxiao and Mr. Han Liren<sup>22</sup> became the Kemy Shareholders. Four of the Kemy Shareholders, namely, Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu and Mr. Meng Yuxiao are also Pre-reorganization Shareholders<sup>23</sup>. Pursuant to a sale and purchase agreement dated September 20, 2007, the Initial Shareholder transferred all the 1,000,000 Shares she held in our company to Kemy, representing 81% of the then issued share capital of our company, for a mutually agreed consideration of US\$10,000<sup>24</sup> (representing US\$0.01 per Share). This consideration was mutually agreed by the Initial Shareholder and the six individuals on the basis that the Initial Shareholder had only made an investment of US\$1,000 by acquiring shares in our company on August 7, 2006.

The completion of the transfer of the 1,000,000 Shares from the Initial Shareholder to Kemy was a condition precedent for the investment by Cathay in our company. Cathay considered the opportunity to invest in our company attractive only if the key directors and senior management of Sifang Telecom were also shareholders in our company. Given that five out of six of the Kemy Shareholders, including Mr. Zhao Bing, Mr. Meng Yuxiao, Mr. Zhang Yonglu, Mr. Deng Xuejun and Mr. Han Liren were also directors or senior management of Sifang Telecom, Cathay's investment in our company was conditional on the completion of the transfer of the shares held by the Initial Shareholder to Kemy.

---

20 Kemy is an investment holding company incorporated on September 3, 2007 with limited liability, and is wholly owned by the Kemy Shareholders, namely, Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu, Mr. Deng Xuejun, Mr. Meng Yuxiao and Mr. Han Liren.

21 Mr. Deng Xuejun is an executive director of our company and a vice general manager of Sifang Telecom.

22 Mr. Han Liren is a vice general manager of Sifang Telecom.

23 To the best knowledge of our directors, Ms. Feng Xiaomei, one of the five Pre-reorganization Shareholders, did not participate in the acquisition for personal reasons.

24 In early February 2010, Mr. Meng Yuxiao of our Group verbally informed the relevant personnel at the Department of Commerce of Hebei Province that the Initial Shareholder subsequently transferred her equity interest in our company to Kemy which was owned by six individuals of whom four were Pre-reorganization Shareholders.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

Having witnessed the gradual increase in the export of our products to overseas customers, the Kemy Shareholders were determined to develop Sifang Telecom into a successful business and were prepared to acquire the shares in our company from the Initial Shareholder in September 2007. Moreover, the Kemy Shareholders considered that an investment in Sifang Telecom would be more attractive to investors (such as Cathay) and therefore more beneficial for our Group's long-term development if Sifang Telecom remained a wholly foreign-owned enterprise. This would only be possible if our company did not default on the timely payment of the Second Portion Consideration. At that time, our company could not fully pay the Second Portion Consideration without Cathay's subscription monies, and the share transfer from the Initial Shareholder to Kemy was made a condition to Cathay's investment in our company. Accordingly, Kemy acquired the Initial Shareholder's interest in our company and became one of our Controlling Shareholders on September 26, 2007.

Based on the current PRC laws, rules and regulations, our company's PRC legal advisor, Grandall Legal Group, is of the view that the transfer of our shares from the Initial Shareholder to Kemy in September 2007 was not subject to the M&A Rules because (i) the M&A Rules apply to foreign investors who acquire or merge with domestic enterprises; and (ii) this share transfer was a transfer of shares in a foreign body corporate, namely, a Cayman Islands incorporated company, and took place outside the PRC. For further details, please refer to the section headed "Regulations – Supervision and Administration over Foreign Exchange – Acquisition of Domestic Enterprises by Foreign Investors" of this prospectus.

Our directors are of the view that (i) the share transfer from the Pre-reorganization Shareholders to the Initial Shareholder in August 2006, and (ii) the share transfer from the Initial Shareholder to Kemy in September 2007, were not attempts to circumvent the M&A Rules.

Our company's PRC legal advisor, Grandall Legal Group, has also confirmed that the disposal of the interest in Sifang Telecom by the Pre-reorganization Shareholders of our company in 2006 and the subsequent transfer of our company's shares to Kemy in 2007 would not be regarded as circumventing the M&A Rules<sup>25</sup>.

Apart from Ms. Shi Shuran and Mr. Zhao Bing who are mother and son and are deemed to be acting in concert under the Takeovers Code, the Kemy Shareholders are not acting in concert and exercise voting rights at their own discretion.

### *Investment by Cathay*

Cathay became acquainted with our Group in early 2007 when employees representing New China Capital Management (HK) Ltd.'s Beijing office (an entity employed by New China Management, L.P., the investment manager of Cathay Capital Holdings, L.P.) were introduced to Mr. Meng Yuxiao, a Pre-reorganization Shareholder by an Independent Third Party.

---

<sup>25</sup> Grandall Legal Group, our company's PRC legal advisor, has confirmed that the transfer of our company's shares to Kemy in September 2007 would not be subject to the M&A Rules despite the fact that Kemy is held by PRC residents.



---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

Further to negotiations between Cathay<sup>26</sup> and the Pre-reorganization Shareholders which commenced in early 2007, our company entered into the Subscription and Shareholders Agreement with Cathay, Wakee and six guarantors, consisting of the same individuals as the Kemy Shareholders on September 5, 2007, under which our company agreed to allot and issue to Cathay 324,886 Series A Preferred Shares, representing 20.83% of the enlarged issued share capital of our company, for a consideration of US\$10 million (representing US\$30.78 per Series A Preferred Share) which represented a mutually agreed price-to-earnings ratio of 5 times, based on the performance benchmark of our company for the financial year ended December 31, 2007 of US\$10 million as agreed among the parties. On September 27, 2007, Kemy signed a deed of confirmation and adherence to confirm it shall duly observe, perform and be bound by all provisions of the Subscription and Shareholders Agreement in so far as they are applicable to the Kemy Shareholders and a shareholder of our company as if Kemy were an original party to the Subscription and Shareholders Agreement. Cathay paid the consideration in full on September 27, 2007, and became our shareholder on the same day.

A portion of the funds from Cathay was used to pay the Second Portion Consideration. The remainder of the funds from Cathay was used to increase the registered capital of Sifang Telecom from RMB50,000,000 to RMB71,000,000 on December 18, 2008 and further to RMB116,631,524 on November 30, 2009.

According to the Subscription and Shareholders Agreement, Cathay agreed to invest in our company on the understanding that Mr. Zhao Bing, Mr. Zhang Yonglu, Mr. Han Liren, Mr. Meng Yuxiao, Ms. Shi Shuran and Mr. Deng Xuejun would form or acquire an investment holding vehicle to acquire 1,000,000 shares in our company from the Initial Shareholder. As disclosed in the subsection headed "Investment by Kemy" above, this entailed the incorporation of Kemy on September 3, 2007 with Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu, Mr. Meng Yuxiao, Mr. Han Liren and Mr. Deng Xuejun as the Kemy Shareholders and the transfer of 1,000,000 Shares from the Initial Shareholder to Kemy pursuant to a sale and purchase agreement dated September 20, 2007.

---

26 Cathay is a company incorporated on September 3, 2007 under the laws of the BVI with limited liability and is one of our substantial shareholders. Cathay is principally engaged in the business of investment holding with our company being its only investment and business activity. Cathay is a wholly-owned subsidiary of Cathay Capital Holdings, L.P. Cathay Capital Holdings, L.P. is a private equity fund launched in February 2004 and is a limited partnership registered under the laws of the Cayman Islands. Cathay Capital Holdings, L.P. is principally engaged in the business of direct investment in the PRC across a diverse range of industries including the consumer industry, infrastructure, distribution and media as well as heavy and light industries. The general partner of Cathay Capital Holdings, L.P. is Cathay Master GP, Ltd.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### *Investment by Mr. Gong Hongyu*

On February 6, 2008, Mr. Gong Hongyu<sup>27</sup> entered into a consent agreement with our company, Kemy, Cathay and Wakee. Under this agreement, he agreed to be bound by the provisions of the Subscription and Shareholders Agreement save and except certain provisions as expressly stipulated in the consent agreement. On February 12, 2008, Kemy entered into a share purchase agreement with Mr. Gong Hongyu, pursuant to which Kemy transferred 25,991 Shares of our company to Mr. Gong Hongyu for a consideration of US\$1 million (representing US\$38.47 per Share), representing 1.67% of our issued share capital. Mr. Gong Hongyu paid the consideration on February 28, 2008 and became our shareholder upon the completion of this share transfer on the same day.

After the completion of the share transfer from Kemy to Mr. Gong Hongyu on February 28, 2008, Kemy, Cathay, Wakee and Mr. Gong Hongyu held 974,009, 324,886, 234,568 and 25,991 shares of our company, respectively, constituting 62.46%, 20.83%, 15.04% and 1.67%, respectively, of the then entire issued share capital of our company. Save as disclosed in this section, there is no other relationship among Mr. Gong Hongyu, the Pre-reorganization Shareholders, Cathay, Wakee and Kemy.

### *Incorporation of Pacific Gain Technologies*

On June 20, 2008, Pacific Gain Technologies was incorporated as a company with limited liability under the laws of Hong Kong by Easytime Development Limited, with an authorized share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1 each. On the date of incorporation, Pacific Gain Technologies issued one share to Easytime Development Limited, who then transferred this one share to us on September 2, 2008, for a consideration of HK\$1. As a result, Pacific Gain Technologies became our wholly-owned subsidiary on September 2, 2008. Pacific Gain Technologies is principally engaged in the export of our fiber optic patch cords to customers in Canada, New Zealand and Ireland.

### *Increase in registered capital of Sifang Telecom*

On October 8, 2007, our company provided a three-year interest-free loan in an amount of US\$6,759,000 to Sifang Telecom. An amount equal to RMB21,000,000 of this loan was converted into the registered capital of Sifang Telecom upon the consent of our company and Sifang Telecom and the approval from the Provincial Department of Commerce of Hebei Province on September 26, 2008. As a result, the registered capital of Sifang Telecom was increased to RMB71,000,000.

On November 30, 2009, our company increased the registered capital of Sifang Telecom from RMB71,000,000 to RMB116,631,524, upon our full payment of RMB45,631,524.

---

<sup>27</sup> Mr. Gong Hongyu, a Hong Kong resident, is an individual shareholder of our company. Mr. Gong Hongyu has known Mr. Paul Wolansky, previously a non-executive director of our company nominated by Cathay, since 1994. He then became acquainted with our Group in late 2007 around the time Cathay became a shareholder and subsequently became familiar with our Group's business through Mr. Meng Yuxiao, an executive director of our company. As a former investment banker, and having worked on transactions involving many Chinese and international telecommunications services, equipment, and technology companies, Mr. Gong Hongyu is familiar with the industry sectors our company is operating in. To the best knowledge of our directors, save for Mr. Gong Hongyu's investment in our company, Mr. Gong Hongyu was an Independent Third Party as at the Latest Practicable Date.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### *Conversion of Cathay's Series A Preferred Shares into ordinary shares*

At its sole discretion, Cathay agreed to convert all its 324,886 Series A Preferred Shares into 324,886 ordinary shares of our company on December 22, 2008, at the time when the Deed of Variation and the First Kemy Deed were entered into<sup>28</sup>. Notwithstanding such agreement, our company only received a written notice from Cathay on March 4, 2010 informing us of Cathay's election on conversion of all its 324,886 Series A Preferred Shares into 324,886 ordinary shares of our company at a conversion ratio of one to one without payment of additional consideration, pursuant to the terms of the Subscription and Shareholders Agreement. As a result, the conversion was registered on the register of members of our company on March 8, 2010. As from December 22, 2008 to the date upon which the register of members of our company was updated to reflect the conversion, our shareholders had treated Cathay as a holder of 324,886 ordinary shares and have put themselves in such economic position as if the conversion had taken place on December 22, 2008. Maples and Calder, our company's Cayman Islands legal advisor, has confirmed that: (a) as a matter of Cayman Islands law, there is nothing which prevents the shareholders in our company as between themselves from agreeing to treat Cathay as if it had been the holder of 324,886 ordinary Shares from December 22, 2008 or agreeing to put the shareholders in the same economic position as if conversion into such ordinary Shares had taken place on that date; (b) the right of conversion at the sole discretion of Cathay (and the absence of a right of objection by the other shareholders would), as a matter of Cayman Islands law, depends inter alia on a provision to such effect being contained in the Articles of Association as in effect at the relevant time; and (c) the form of articles produced to Maples and Calder as being those articles do contain such a provision and there is no such right of objection. After the conversion, Kemy, Cathay, Wakee and Mr. Gong Hongyu held 974,009, 324,886, 234,568 and 25,991 shares of our company, respectively, constituting 62.46%, 20.83%, 15.04% and 1.67%, respectively, of the then entire issued share capital of our company.

On September 27, 2007, in connection with Cathay's subscription of our shares and pursuant to the Subscription and Shareholders Agreement, Kemy entered into a share charge with Cathay (the "**Share Charge**"), under which Kemy agreed to charge 1,000,000 ordinary Shares of our company in favor of Cathay as a condition for Cathay to complete its share subscription in our company. The Share Charge provided a security to Cathay against all the liabilities and obligations of Sifang Telecom and its affiliated companies in connection with certain tax clearance procedure as well as all the liabilities and obligations of the Kemy Shareholders in connection with Cathay's share subscription. The Share Charge was subsequently released by Cathay pursuant to a deed of release dated March 4, 2010. In addition, on the same date, pursuant to the Second Deed of Variation, Cathay also gave up its rights to nominate a director to our board of directors and for such director to approve certain matters that may be undertaken by our company and to be a prerequisite to the formation of a quorum for a directors' meeting. If the Listing is not completed by December 31, 2010, our shareholders, our company and the Kemy Shareholders have agreed, pursuant to the Second Deed of Variation, that the 324,886 ordinary shares held by Cathay will be converted back to Series A Preferred Shares at the conversion ratio of one to one, and the Share Charge and the abovementioned director nomination right and approval right will be reinstated. Pursuant to the Third Deed of Variation, the deadline for the completion of the Listing as stipulated under the Second Deed of Variation was changed from December 31, 2010 to June 30, 2011.

---

<sup>28</sup> Cathay agreed to the conversion of its shares on December 22, 2008 but this oral agreement was not documented until March 4, 2010.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### *Other Special Rights granted to our Shareholders*

Pursuant to the Subscription and Shareholders Agreement, there are certain other special rights granted to our shareholders. These rights include (i) Cathay's approval right in respect of any transfer or encumbering of any equity interest in our company by our other shareholders or the Kemy Shareholders, (ii) Cathay's approval right in respect of any change or modification of shareholding structure or control of Kemy or Wakee, (iii) Cathay's tag-along right in respect of any sale of equity interest of our company or any other member of our Group, (iv) the rights of Cathay and our other shareholders (including Kemy, Wakee and the Kemy Shareholders) to nominate directors to the board of directors of our subsidiaries, (v) Cathay's right to veto our declaration and payment of cash dividends or scrip dividends representing more than 30% of our distributable profits after making provision for any required debt repayments and/or capital expenditures previously approved by our board, (vi) Cathay's right to have access to financial, legal, management and operational information relating to our Group, (vii) Cathay's right to be appointed as US tax matters partner for US tax purposes and to make or lodge relevant filings and tax returns for and on behalf of our Group and our shareholders to relevant US taxation authorities as Cathay may deem appropriate, (viii) Cathay's anti-dilution right in respect of further issuances of equity interests in our company (other than pursuant to the Global Offering), (ix) Cathay's right to be entitled to more favorable terms offered to a third party in the event of any future offer of equity or equity linked securities (other than pursuant to the Global Offering) and (x) registration rights of our shareholders with respect to any potential public offering of our shares in the United States and analogous or equivalent rights with respect to any initial public offering in any other jurisdictions to which our company undertakes to publicly offer or list such securities for trading on a recognized securities exchange. Pursuant to the Second Deed of Variation, all of the abovementioned rights will terminate upon the Listing. The guarantees given by the six guarantors under the Subscription and Shareholders Agreement will also be fully released upon the Listing.

### *Performance Guarantee and Options to acquire Shares granted by Kemy to Cathay*

Pursuant to the Subscription and Shareholders Agreement, Cathay was entitled to subscribe additional Series A Preferred Shares, the number of which is based on certain targeted audited net profits in 2007. Under the same agreement, the conversion ratio of the Series A Preferred Shares held by Cathay was also linked to certain performance benchmarks of our company for the years ended December 31, 2007, 2008 and 2009. For a detailed description of the rights of the Series A Preferred Shares, please see "Note 25. Convertible preference shares" in the Accountants' Report as set forth in Appendix I to this prospectus.

On December 22, 2008, pursuant to the Deed of Variation, Cathay gave up its right to subscribe for additional Series A Preferred Shares based on certain performance benchmarks for the years ended December 31, 2007, 2008 and 2009, and the conversion ratio of Series A Preferred Shares was fixed so that one Series A Preferred Share would be converted into one ordinary Share of our company, subject to the adjustments as set out in the Memorandum and Articles of Association of our company, including but not limited to the adjustment for share splits and combinations and the adjustment for common share dividends and distribution.

On December 22, 2008, pursuant to the First Kemy Deed, all rights and benefits forgone by Cathay under the Subscription and Shareholders Agreement as a result of entering into the Deed of Variation, as mentioned above, would be fully compensated by Kemy granting rights and benefits over its shareholdings in our company in favor of Cathay. Under the First Kemy Deed, Kemy would transfer certain number of the ordinary Shares it held to Cathay if our company fails to meet any of the Performance Benchmarks for the three years ended December 31, 2009 at a nominal consideration of US\$10.00. The Kemy Shareholders, as guarantors under the First Kemy Deed,

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

guaranteed to Cathay Kemy's performance under the First Kemy Deed and agreed to indemnify Cathay against losses arising from any breach by Kemy under the First Kemy Deed, and further undertook not to transfer, dispose of or create any encumbrances over their shareholdings in Kemy during the option period under the First Kemy Deed. Under the Performance Benchmarks, the audited net profit<sup>29</sup> for the three financial years ended December 31, 2007, 2008 and 2009 shall be no less than US\$10 million, US\$16 million and US\$24 million, respectively. In the event that our company fails to meet any of these Performance Benchmarks, the number of Shares that Kemy shall transfer to Cathay is calculated by multiplying (i) the number of Series A Preferred Shares held by Cathay (i.e. 324,886 Shares) by (ii) the difference between the Performance Benchmark for the relevant year and the audited net profit for the relevant year as a fraction of the audited net profit for the relevant year. Kemy did not transfer any shares to Cathay as we met the Performance Benchmarks for 2007 and 2008.

In addition, under the First Kemy Deed, Cathay also has a call option to further require Kemy to sell to Cathay 64,978 Shares owned by Kemy at the price of US\$69.2542 per Share. Such call option will terminate upon the earlier of 5 years from the date of the First Kemy Deed or immediately prior to the Listing. As of the Latest Practicable Date, Cathay had not exercised such call option and had further provided a confirmation that it will not exercise such call option at any time prior to the Listing.

On January 14, 2010, pursuant to the Second Kemy Deed, (i) in light of the negative impact of the global economic crisis on our business, Cathay agreed to defer the assessment of the Performance Benchmark for the year ended December 31, 2009, i.e. audited net profit of no less than US\$24 million, to the year ended December 31, 2010 and (ii) if Cathay's shareholdings in our company are diluted due to issuance of securities of our company (save and except for an initial public offering), each of Kemy and the Kemy Shareholders agreed to fully indemnify Cathay by, at Cathay's discretion, either transferring to Cathay such number of Kemy's Shares in our company in order to fully mitigate the dilutive effect on Cathay's shares, or by paying cash compensation to Cathay that represents a fair value of Cathay's share dilution. Pursuant to the Second Deed of Variation, Kemy and Cathay have agreed that, if any such share transfer pursuant to the Second Kemy Deed would have resulted in Kemy owning less than 30% of our entire issued share capital, the number of shares to be transferred will be reduced to the extent that Kemy, immediately following such transfer, will own at least 30% of our entire issued share capital, and that Cathay will own less than 30% of our entire issued share capital, in which case Cathay will be fully compensated by Kemy in cash (such cash being derived other than from the sale of Shares by Kemy which would result in Kemy owning less than 30% of our entire issued share capital). Kemy did not transfer any shares to Cathay as we met the Performance Benchmark in the year ended December 31, 2010 (i.e. the audited net profit for the financial year ended December 31, 2010 exceeded US\$24 million).

---

29 As set out under the section headed "Appendix I – Accountants' Report" of this prospectus, the gross profit of our company for the year ended December 31, 2008 was RMB159,176,000 (US\$23,309,000 based on an exchange rate of RMB1 to US\$0.146436). For this purpose, under the First Kemy Deed, "audited net profit" shall be determined in accordance with IFRS (or Chinese Generally Accepted Accounting Principles incorporating adjustments made pursuant to IFRS) excluding gains or profits from non-operational or extraordinary one time items or events, as shown in the audited consolidated accounts for a relevant financial year approved by our board. For the purpose of calculating such "audited net profit", the fair value losses on convertible preference shares were regarded as non-operational and extraordinary one time items or events and were therefore excluded. The audited net profit of our company for the year ended December 31, 2008 (excluding the fair value losses on convertible preference shares) was RMB125,368,000 (US\$18,358,000 based on an exchange rate of RMB1 to US\$0.146436).

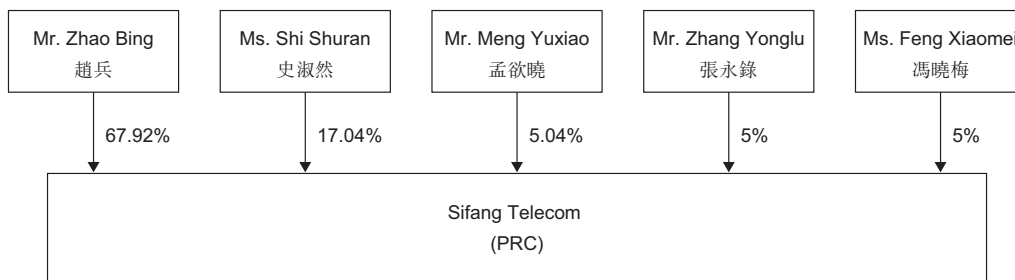
# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## Compliance with PRC laws and regulations

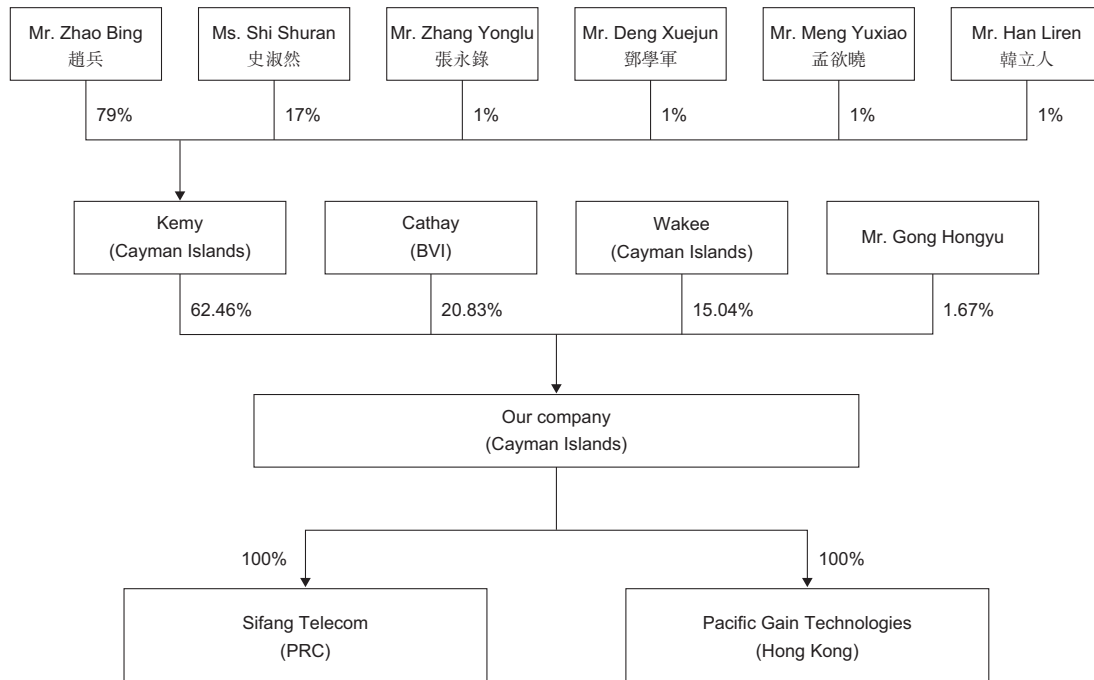
As advised by our PRC legal advisor, Grandall Legal Group, all the equity transfers and arrangements described in this section in relation to our acquisition of Sifang Telecom are legal, valid and enforceable according to the relevant PRC laws and regulations and all approvals and permits required under the relevant PRC laws and regulations in connection with the Reorganization for the purposes of the Listing have been obtained.

## CORPORATE STRUCTURE

The diagram below sets forth our shareholding and corporate structure immediately before the Reorganization:



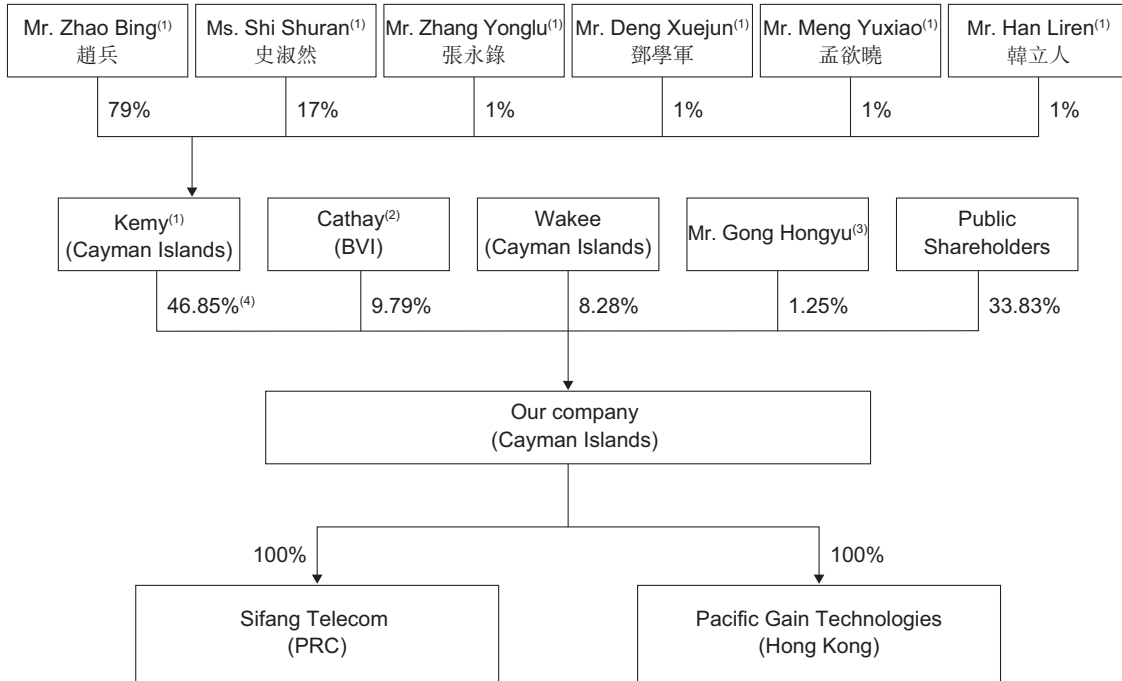
The diagram below sets forth our shareholding and corporate structure following the Reorganization but before the completion of the Global Offering:





## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The diagram below sets forth our shareholding and corporate structure following the completion of the Reorganization, the Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme or to be granted the Share Option Scheme:



- (1) Apart from Ms. Shi Shuran and Mr. Zhao Bing who are mother and son and are deemed to be acting in concert under the Takeovers Code, the Kemy Shareholders are not acting in concert and exercise voting rights at their own discretion.
- (2) The Shares held by Cathay will be treated as part of the public float.
- (3) The Shares held by Gong Hongyu will be treated as part of the public float.
- (4) Kemy will own 42.96% of our total issued share capital if the Over-allotment Option is fully exercised.



**OVERVIEW**

We are one of the largest manufacturers of fiber optic patch cords in China. In terms of sales volume in 2010, we were the largest manufacturer of fiber optic patch cords in China according to CCID. Our fiber optic patch cord sales volume in 2010 accounted for 18.6% of the total sales volume of fiber optic patch cords in China, exceeding the combined market share of our two largest competitors in China. Fiber optic patch cords, one of the key components in fiber optic networks, are sets of devices that consist of one or more soft optical cables with each of their ends connected to one or more connectors. The connectors make connections with optical cables or other equipment in the fiber optic communications network, while the soft optical cables transmit light signals. We produce and sell a comprehensive portfolio of fiber optic patch cords used in a variety of applications in the communications industry. In addition to fiber optic patch cords, we also produce connection and distribution products and equipment room accessories.

We currently target at the fiber optic patch cord market in China by providing customized products and solutions to communications network operators including telecommunications network operators, broadcast and television communications network operators and specialized communications network operators. We have established strong and long-standing business relationships with three of the major telecommunications operators in China. Our direct sales to these three customers in 2010 amounted to RMB442.7 million, representing 52.8% of our total revenue during the same year. Our revenue in 2010 generated from our largest customer, which is among three of the major telecommunications network operators in China, was RMB249.3 million, which represented 29.7% of our total revenue during the same year. Our domestic sales increased significantly since 2009 due primarily to the growing demand for our products, driven by the rapid development of the Chinese communications industry in general and the expansion of the 3G networks in particular. We expect that our domestic sales will continue to constitute a majority of our total sales in the future. We also sell our products to overseas customers in Ireland, New Zealand and Canada during the Track Record Period.

The principal raw materials for producing fiber optic patch cords are soft optical cables and ceramic ferrules. We currently have six fiber optic patch cord production lines and one soft optical cable production line in Shijiazhuang, Hebei Province, with an aggregate designed annual production capacity of 9.0 million sets of fiber optic patch cords and 13,000 kilometers of soft optical cables. Because we have been using this production line primarily for testing and recording technical parameters of various types of soft optical cables we plan to produce with future new production lines, its utilization rate for 2008, 2009 and 2010 was only 0.1%, 2.1% and 3.5%, respectively, of the designed annual production capacity. All of the soft optical cables produced in-house are used to produce our fiber optic patch cords. For the years ended December 31, 2008, 2009 and 2010, 99.8%, 99.9% and 99.8%, respectively, of the total soft optical cables we used for producing fiber optic patch cords were purchased from our suppliers. During the respective periods, our in-house produced soft optical cables constituted 0.2%, 0.1% and 0.2% respectively, of the total soft optical cables are based for producing fiber optic patch cords. We purchase all of the ceramic ferrules required for our production from external suppliers. We plan to build two additional fiber optic patch cord production lines and nine new soft optical cable production lines. Upon full commencement of operations of these new production lines expected in 2011, we expect to increase our aggregate annual production capacity to 12 million sets of fiber optic patch cords and 130,000 kilometers of soft optical cables. We believe that the planned increase in our production capacity will help us capitalize on the growing demand for our products in the communications industry in China, driven by the expansion of 3G networks, the adoption of the FTTx technology, the upgrade of the broadcast and television networks and the integration of the three networks – the telecommunications networks, the broadcast and television communications networks and the Internet. According to CCID, three of the major telecommunications network operators in China invested over RMB146 billion on the expansion of 3G networks in 2010. CCID also predicts an annual demand for 16 million to 40 million sets of fiber optic patch cords generated from the adoption of the FTTx technology in the next five years.

---

## BUSINESS

---

We place a strong emphasis on research and development with a focus on the development of innovative and advanced fiber optic patch cord products that suit the evolving market demand. As of the Latest Practicable Date, we had 44 registered patents and 2 pending patent applications in China. Our products and solutions have also received multiple awards and certifications, such as the Special Gold Award of China International Patent and Brand Exhibition for our fiber optic patch cords and closure products in November 2007. In April 2003, the development of our FC fiber optic patch cords, our principal fiber optic patch cord product, was certified as a National Torch Program Project by the PRC Ministry of Science and Technology. We believe that our advanced technologies and products, together with our track record and long-standing customer relationships, enable us to obtain and maintain our qualified supplier status with our existing and potential customers.

We derived a majority of our revenue from our major customers. Our five largest customers together accounted for 78.2%, 63.2% and 76.2%, respectively, of our total revenue for the years ended December 31, 2008, 2009 and 2010, respectively. Our largest customer accounted for 31.6%, 25.5% and 29.7%, respectively, of our total revenue for the corresponding years. We intend to mitigate our reliance on the major customers by continuously broadening our customer base. We expect that our top customers will include more broadcast and television communications network operators, which are mainly provincial broadcast and television communications network operators in China, and specialized communications network operators, such as the railway and highway communications network operators, as their demand for fiber optic patch cords increases in the future. We have established long-term relationships with our major customers, most of which are large and renowned communications network operators in China, and we did not experience any material difficulties during the Track Record Period in recovering trade receivables from those major customers to whom we offered relatively longer credit periods of three months to one year compared with other customers. We did not implement specific measures during the Track Record Period to mitigate any risks associated with the longer credit period that we offered to our major customers. Nonetheless, in view of possible adverse impact on our operating cash flow arising from the provision of longer credit period to our major customers, we have adopted various measures to address the credit risk. We have established a credit evaluation system, under which we rate our customers into different categories and offer credit limits and terms to them based on our credit evaluation. We create and keep a profile for each of our customers in order to review their payment status from time to time. The profiles are subject to update and reevaluation twice a year and are used as the basis for the determination of credit terms we offer to different customers. Furthermore, we maintain a comprehensive evaluation procedure, including review by our finance department and management. In addition, we set conditions for product delivery based on credit evaluation in order to effectively manage the credit risks associated with trade receivables. As a result, our directors believe that our credit risk has been significantly reduced and our directors confirm that it has not materially adversely affected our liquidity by granting longer credit period to our major customers than other customers and our Group has sufficient working capital for the 12 months since the date of this prospectus.

Our trade receivable turnover days were 58 days, 135 days and 207 days in 2008, 2009 and 2010 respectively. The trade receivable turnover days increased from 2008 to 2010 because our sales to three of the major telecommunications network operators in China, who are among our major customers and to which we offered longer credit terms compared with other customers, increased as a percentage of our total revenue from 2008 to 2010. Our directors confirm that we did not experience any delay in payment from these three major telecommunications network operators in China during the Track Record Period that materially adversely affected our business. Our trade receivables aged over 12 months or more were RMB3.1 million, RMB24.1 million and RMB7.3 million as of December 31, 2008, 2009 and 2010, respectively, accounting for 3.4%, 6.2% and 1.3%, respectively, of our total trade receivables as at the respective year end date. Trade

## BUSINESS

receivables turnover days increased from 2009 to 2010 because a large portion of our sales in 2010 were made in the second half of 2010, causing our average trade receivables balance to increase. We made an estimate for doubtful debts when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. There was no impairment provision for receivables during the Track Record Period.

We purchased a substantial portion of raw materials and components from our key suppliers. During the years ended December 31, 2008, 2009 and 2010, purchases from our top five raw materials suppliers together accounted for 60.2%, 86.7% and 85.6%, respectively, of our total purchases of raw materials for the corresponding years, and the purchase from the largest supplier accounted for 26.0%, 25.4% and 23.2%, respectively, of our total purchases of raw materials for the corresponding years. During the Track Record Period, there was no material fluctuation in the average pricing of our Group's principal raw materials. For each of the years ended December 31, 2008, 2009 and 2010, the average unit cost of ceramic ferrules we purchased was RMB2.1, RMB2.1 and RMB2.1 respectively; and the average cost of soft optical cable we purchased was RMB1.2, RMB1.2 and RMB0.9 per meter respectively. In view of the supply condition as of the Latest Practicable Date, we believe it would not be difficult for us to source raw materials from other suppliers, who are readily available in the market, if our top suppliers stop supplying raw materials to us. We plan to reduce our reliance on key suppliers by increasing our production capacity of the principal raw materials. For example, we plan to build nine new soft optical cable production lines to increase our aggregate annual production capacity to 130,000 kilometers of soft optical cables, which we believe will satisfy a portion of our production requirement for soft optical cables. In addition, if presented with right opportunities, we will consider securing supply of ceramic ferrules through selective acquisitions and strategic alliances.

Our business grew rapidly since we entered into the fiber optic patch cord business in 2001. Our revenue for the years ended December 31, 2008, 2009 and 2010 was RMB334.5 million, RMB645.7 million and RMB838.1 million, respectively, representing a CAGR of 58.3% from 2008 to 2010, and our profit for the years ended December 31, 2008, 2009 and 2010 was RMB86.9 million, RMB139.1 million and RMB181.9 million, respectively, representing a CAGR from 2008 to 2010 of 44.7%.

During the Track Record Period, we produced all the products that we sold to our customers. The table below sets forth sales of our different products both in absolute amounts and as a percentage of our total revenue during the Track Record Period:

	Year ended December 31,					
	2008		2009		2010	
Product Category	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
<i>(RMB in thousands except percentages)</i>						
Fiber optic patch cords	282,674	84.5%	614,969	95.2%	785,312	93.7%
Connection and distribution products	29,446	8.8%	23,298	3.6%	41,344	4.9%
Equipment room accessories	22,367	6.7%	7,383	1.2%	11,482	1.4%
<b>Total revenue</b>	<b>334,487</b>	<b>100.0%</b>	<b>645,650</b>	<b>100.0%</b>	<b>838,138</b>	<b>100.0%</b>

### COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our leading position and success in the fiber optic patch cord market in China:

#### **Leading manufacturer of fiber optic patch cords in China that is well-positioned to capitalize on the growing market demand for fiber optic patch cords**

We are one of the largest manufacturers of fiber optic patch cords in China. According to CCID, we were the largest manufacturer of fiber optic patch cords in China in 2010 based on sales volume. Our fiber optic patch cord sales volume in 2010 accounted for 18.6% of the total sales volume of fiber optic patch cords in China, exceeding the combined market share of our two largest competitors in China. We dedicate a substantial amount of our management efforts and financial, technical, research and human resources to the design, development, manufacturing and marketing of fiber optic patch cords and related products. Our business focus on the fiber optic patch cord market enabled us to timely adapt to dynamic industry trends and the technology needs of our customers, and contributed to our rapid growth and high operating efficiency in the Track Record Period. As of December 31, 2008, 2009 and 2010, our annual manufacturing capacity of fiber optic patch cords was 4.0 million sets, 9.0 million sets and 9.0 million sets, respectively. For the three years ended December 31, 2008, 2009 and 2010, our sales of fiber optic patch cords amounted to RMB282.7 million, RMB615.0 million and RMB785.3 million, respectively, accounting for 84.5%, 95.2% and 93.7% of our total revenue, respectively.

We believe our leading position in the fiber optic patch cord market in China has enabled us to capture the upcoming commercial opportunities arising from the rapid growth of the communications industry in China. From 1998 to 2010, the size of the fiber optic patch cord market in China increased from RMB260 million to RMB2.8 billion according to CCID, representing a CAGR of 21.9%, largely driven by continuous network expansion and upgrade. Demand for communications equipment, including fiber optic patch cords, has increased significantly, attributable to the expansion of 3G networks, the adoption of FTTx technology, the upgrade of the broadcast and television networks and the integration of three networks – the telecommunications networks, the broadcast and television communications networks and the Internet. We believe that we are well-positioned to capitalize on the growing demand for fiber optic patch cords.

#### **Comprehensive and customized products**

We offer over 100 models of fiber optic patch cords widely used in the telecommunications industry, the broadcast and television industry and specialized communications networks, such as railway and highway communications networks. We also offer a wide variety of connection and distribution products and equipment room accessories, such as optical fiber distribution frames, cross connection cabinets for optical cables and power distribution cabinets. We often work with our customers to design customized products in accordance with our customers' specifications and requirements. We believe our comprehensive and customized products will help us build and maintain strong relationships with our customers and to capture the growing business opportunities in the fiber optic patch cord market in China. In addition, by developing application-specific and customized products, we believe that we have gained advantage in pricing such products, while generating recurring revenues from selling replacement products to our existing customers.

### **Effective production management and extensive quality control**

In line with our belief that product quality is essential to our continued success, we have a long-standing emphasis on production management and quality control programs to ensure the quality of our products.

Quality control measures are implemented throughout our manufacturing process. For each key manufacturing step, we have inspection and testing procedures that are prepared and reviewed with significant involvement of our senior management. We have invested in industry-leading testing equipment and technologies that contributed to the high quality and reliability of our products. Upon completion of the production process, we perform final inspections to ensure that our customers' specifications and requirements are met prior to delivery of our products. We have also maintained a feedback system to respond promptly to any technological or quality problems that our customers may encounter.

Our effective production management and rigorous control over product quality, coupled with our advanced technologies, have enabled us to achieve high pass rate of our products and helped us to control our production costs.

### **Market-driven research and development capability**

We believe that one of our core strengths is our research and development capability that caters to market demand. Our priorities in research include developing small-sized and high-concentration fiber optic patch cords in line with the market trend for more compact communications equipment. We have successfully developed a series of sheathed fiber optic patch cords, in which optical fibers are armored in metal, in order to meet customers' needs for higher durability. We were able to develop these products based on our existing product models using our own technologies and know-how, and therefore required less capital resources compared to development of entirely new products. As of December 31, 2010, we had 19 research and development personnel. We launched our research and development projects in 2008. For the years ended December 31, 2008, 2009 and 2010, our research and development expenditures were RMB4.8 million, RMB5.0 million and RMB4.0 million, respectively. We plan to use 12.8% of the net proceeds from the Global Offering or HK\$44 million, to purchase equipment and facilities for research and development.

We have accumulated significant expertise, knowledge, know-how and experience in the design and production of fiber optic patch cords. As of the Latest Practicable Date, we had 44 registered patents and 2 pending patent applications in China. Our strong research and development capabilities have enabled us to win various awards and recognitions. See "– Awards and Recognitions" in this section. In addition, we have cooperated with several well-known institutions in our industry, including Tsinghua University and Tianjin University, to develop new communications technologies and products. We believe our collaborative efforts with these institutions keep us abreast of the latest industry development and trends.

### **Strong relationships with our key customers**

We have established strong and long-term relationships with our key customers, including telecommunications network operators, broadcast and television communications network operators and specialized communications network operators. In 2001, we received the Network Access License for Telecommunications Equipment from the Ministry of Information Industry of China, the predecessor of MIIT, and began to sell to the two major telecommunications network operators in China. For the year ended December 31, 2010, our direct sales to three of the major



---

## BUSINESS

---

telecommunications network operators in China together amounted to RMB442.7 million, representing 52.8% of our total revenue for the same year. We started selling our products to specialized communications network operators in 2002 and to broadcast and television communications network operators in 2007. We believe our strong and long-term relationships with our key customers have enabled us to benefit from their increasing spending in expanding and upgrading their networks.

### **Experienced management and highly skilled employees**

We have an experienced and stable management team that successfully managed our operations and increased our production capacity, revenue and profits throughout the Track Record Period. Our management team possesses extensive industry knowledge and expertise in the production and sales of fiber optic patch cords. Our senior managers have an average of over 10 years of management experience. Our management team has successfully implemented business development strategies, captured growing market opportunities and established our leading market position. In addition, our highly skilled employees possess extensive technical know-how and high qualification levels. We believe that the in-depth knowledge and extensive experience of our stable senior management team and the high qualification of our skilled employees provides us with significant competitive advantages in the fast growing fiber optic patch cord industry in China.

### **STRATEGIES**

We intend to maintain and enhance our leading position in the fiber optic patch cord industry in China by implementing the following strategies:

#### **Increase our production capacity to satisfy the growing demand for our products**

We intend to strengthen our leading position in the fiber optic patch cord market in China by increasing our production capacity of fiber optic patch cords to fulfill the increasing demand from our customers. We currently have six fiber optic patch cord production lines with an aggregate annual production capacity of 9.0 million sets of fiber optic patch cords. We plan to build two additional fiber optic patch cord production lines, which, upon the commencement of full operations expected in 2011, will increase our aggregate annual production capacity to 12 million sets of fiber optic patch cords. We also intend to increase our production capacity of steel plates, the principal raw materials for producing connection and distribution products and equipment room accessories. We plan to use 15.2% of the net proceeds from the Global Offering, or HK\$53 million, to build a new facility, which, upon the commencement of its operations (which is expected to be in 2011), is expected to increase our annual machining capacity from processing 1,300 tons of steel plates to 7,700 tons of steel plates. We plan to start building this facility upon receipt of the net proceeds of the Global Offering.

We expect the demand for our products to grow, as our key customers increasingly expand and upgrade their networks, driven by factors such as the expansion of 3G networks, the adoption of FTTx technology, the upgrade of the broadcast and television networks and the integration of the three networks – the telecommunications networks, the broadcast and television communications networks and the Internet. According to CCID, three of the major telecommunications network operators in China invested over RMB146 billion on the expansion of 3G networks in 2010. The CCID Report also predicts an annual demand for 16 million to 40 million sets of fiber optic patch cords generated from the adoption of the FTTx technology in the next five years. We believe that the planned increase in our production capacity will help us capitalize on the growing demand for our fiber optic patch cords and related products in the communications industry in China.

---

## BUSINESS

---

### **Build on existing relationships with customers and expand customer base**

We intend to enhance the established relationships with our existing customers and expand our customer base by maintaining our focus on the quality, reliability and manufacturing efficiency of our products. We believe that the key growth driver of our business lies in the continuous demand from our major customers, such as the three major telecommunications network operators in China. We plan to enhance the relationships with our existing customers by continuing to offer comprehensive, high-quality and customized products that meet their specific requirements. Meanwhile, we plan to leverage our successful track record to attract new customers in China among the broadcast and television communications network operators and specialized communications network operators, such as railway and highway network operators. We expect that our strong and long-standing relationships with our key customers will continue to allow us to benefit from their increasing procurement of fiber optic patch cord products as they expand and upgrade their networks.

### **Enhance our research and development capability to adapt to changing market needs**

The communications network industry market in China is characterized by rapid technological change and evolving industry standards and trends. We plan to dedicate significant efforts and resources to research and development, in order to introduce new products in a timely manner in response to changing market needs. We will continue to focus on designing high-concentration fiber optic patch cords and outdoor fiber optic patch cords, to suit specific needs of our customers. We also intend to enhance technological sophistication and reduce production costs of our products, leveraging our research and development capability.

### **Strengthen our competitive position by securing supply of key raw materials**

We intend to strengthen our competitive position by securing supply of key raw materials. The principal raw materials for producing fiber optic patch cords are soft optical cables and ceramic ferrules. We currently have one soft optical cable production line in Shijiazhuang, Hebei Province with an annual capacity of producing 13,000 kilometers of soft optical cables. We plan to build nine new cable production lines that, upon full commencement of operations expected in 2011, are expected to increase our annual production capacity of soft optical cables to 130,000 kilometers and partially meet our internal soft optical cable needs in the production of our fiber optic patch cords. We believe our in-house capability of producing soft optical cables will enable us to control the quality of our products, reduce our raw material costs and thus increase our profit margins.

If presented with right opportunities, we will consider securing supply of ceramic ferrules through selective acquisitions and strategic alliances. We believe that, as one of the largest manufacturers of fiber optic patch cords in China, we are well-positioned to capture attractive acquisition opportunities and forge strategic alliances with major players to meet our increasing needs for ceramic ferrules resulting from the increase of our production capacity.



---

## BUSINESS

---

### PRODUCTS

During the Track Record Period, we produced and sold three categories of products: fiber optic patch cords, connection and distribution products, and equipment room accessories. The table below sets forth sales of our different products both in absolute amounts and as a percentage of our total revenue for the years indicated:

	Year ended December 31,					
	2008		2009		2010	
Product Category	282,674	84.5%	614,969	95.2%	785,312	93.7%
Fiber optic patch cords						
Connection and distribution products	29,446	8.8%	23,298	3.6%	41,344	4.9%
Equipment room accessories	<u>22,367</u>	<u>6.7%</u>	<u>7,383</u>	<u>1.2%</u>	<u>11,482</u>	<u>1.4%</u>
Total revenue	<u><u>334,487</u></u>	<u><u>100.0%</u></u>	<u><u>645,650</u></u>	<u><u>100.0%</u></u>	<u><u>838,138</u></u>	<u><u>100.0%</u></u>

*(RMB in thousands except percentages)*

Other than offering standard products, we design and produce customized products in accordance with our customers' specifications and requirements and provide fiber optic network solutions that are tailored to our customers' needs. By developing application-specific and customized products, we believe that we have decreased our exposure to the greater pricing pressure associated with standard products, while generating recurring revenue from maintenance of our products and sale of replacement products to our existing customers.

### Fiber Optic Patch Cords

We are primarily engaged in the production and sale of fiber optic patch cords, the most widely used optical accessory in optical fiber communications. Fiber optic patch cords are a type of removable optical devices that connect two fiber optic cables or connect fiber optic cables with other equipment in the fiber optic communications networks. Fiber optic patch cords enable precise connection of two ends of optical fibers to maximize the light energy that can be transmitted from emittent optical fibers to recipient optical fibers and reduce energy losses in transmission. Fiber optic patch cords improve the overall reliability and efficiency of fiber optic communications networks. We currently offer more than 100 models of fiber optic patch cords used in a variety of applications in the communications industry. Our principal fiber optic patch cord products include FC, LC and SC patch cords. We also develop special fiber optic patch cord products, such as sheathed patch cords and outdoor patch cords, in response to specific needs of our customers. The primary end users for our fiber optic patch cords include telecommunications network operators, broadcast and television communications network operators and specialized communications network operators, such as railway and highway network operators.



FC fiber optic patch cord



LC fiber optic patch cord



SC fiber optic patch cord



Sheathed fiber optic patch cord

For the years ended December 31, 2008, 2009 and 2010, the revenue generated from the sales of fiber optic patch cords amounted to RMB282.7 million, RMB615.0 million and RMB785.3 million, respectively, representing 84.5%, 95.2% and 93.7%, respectively, of our total revenue for the corresponding years.

### **Connection and Distribution Products**

Our connection and distribution products include optical distribution frames, digital distribution frames, cross connection cabinet for optical cables, optical fiber cable termination boxes, fiber cable joint closure, cable switch boxes, EPON boxes and WLAN boxes. In addition to standard products, we design and produce connection and distribution products according to our customers' specific requirements and sell these products together with our fiber optic patch cords and other accessory products.



Optical distribution frame



Digital distribution frame

For the years ended December 31, 2008, 2009 and 2010, the revenue generated from the sales of connection and distribution products amounted to RMB29.4 million, RMB23.3 million and RMB41.3 million, respectively, representing 8.8%, 3.6% and 4.9%, respectively, of our total revenue for the corresponding years.

---

## BUSINESS

---

### Equipment Room Accessories

Our main equipment room accessories include power distribution cabinets, cabling ducts and platform canopy.



Power distribution cabinet

For the years ended December 31, 2008, 2009 and 2010, the revenue generated from the sales of equipment room accessories amounted to RMB22.4 million, RMB7.4 million and RMB11.5 million, respectively, representing 6.7%, 1.2% and 1.4%, respectively, of our total revenue for the corresponding years.

## PRODUCTION

### Production Facilities and Production Capacity

All of our production facilities are located in our headquarters in the Economic and Technological Development Zone of Shijiazhuang, Hebei Province. Our production facilities were relocated to the existing headquarters in August 2008. Our headquarters have a total gross floor area of 63,952 square meters, and we possess the right to use the underlying land of 192,030 square meters through June 10, 2055. We use the premises where our production facilities were previously located as our training center and office for our financial department.

#### *Fiber optic patch cords*

We have six fiber optic patch cord production lines with an aggregate annual production capacity of 9.0 million sets of fiber optic patch cords. We plan to build two new production lines, which will increase our aggregate annual production capacity to 12.0 million sets of fiber optic patch cords upon the full commencement of their operations expected in 2011.

The principal equipment used in the production of fiber optic patch cords includes grinding machine and optical time domain reflectometer. We purchase such key equipment from overseas equipment providers in the U.S. and Canada.

---

## BUSINESS

---

The table below sets forth the information on the production capacity and utilization rate of our six existing fiber optic patch cord production lines for the years indicated:

Period	Designed annual production capacity <sup>(1)</sup>	Units produced	Utilization rate <sup>(2)</sup>
2008	4.0 million sets	2.1 million sets	53.6%
2009	9.0 million sets	9.2 million sets	101.8% <sup>(3)</sup>
2010	9.0 million sets	11.8 million sets	131.1% <sup>(3)</sup>

(1) The calculation of our designed annual production capacity is based on the assumption that our production facilities operate three 8-hour shifts per day and 22 days per month.

(2) Utilization rate is units produced as a percentage of designed annual production capacity.

(3) The utilization rates in 2009 and 2010 exceed 100% because the number of actual production days of our production lines exceeded the assumed number of production days used in calculating the designed annual production capacity of the production lines during the corresponding year.

The significant increase in the utilization rate from 2008 to 2009 was due primarily to the growing domestic sales driven by the expansion of 3G networks, the adoption of the FTTx technology and the upgrade of the broadcast and television networks in China.

### *Connection and distribution products and equipment room accessories*

The principal component of our connection and distribution products and equipment room accessories is steel plates. We have an annual capacity of processing 1,300 tons of steel plates in our existing facility. We plan to build another facility that is expected to increase our annual capacity to processing 7,700 tons of steel plates upon its completion expected in 2011.

The principal equipment used in machining our connection and distribution products and equipment room accessories include CNC hydraulic pressure, CNC punching machine, CNC bending machine, plate shearing machine and electric welding machine. We purchase such key equipment from domestic equipment manufacturers.

### *Soft optical cables*

One of the principal raw materials for producing fiber optic patch cords is soft optical cables. We currently have one production line in Shijiazhuang, Hebei Province with an aggregate annual capacity of producing 13,000 kilometers of soft optical cables, which commenced operations in November 2008. Because we have been using this production line primarily for testing and recording technical parameters of various types of soft optical cables we plan to produce with future new production lines, its utilization rate for 2008, 2009 and 2010 was only 0.1%, 2.1% and 3.5%, respectively, of the designed annual production capacity. We have employed and trained a sufficient number of skilled employees for the operation of our soft optical cable production line when its operation stabilizes as we complete the testing. All of the soft optical cables produced in-house are used to produce our fiber optic patch cords. For the years ended December 31, 2008, 2009 and 2010, our in-house produced soft optical cables constituted 0.2%, 0.1% and 0.2%, respectively, of the total soft optical cables we used for producing fiber optic patch cords. We plan to build nine new production lines that, upon full commencement of operations expected in 2011, will increase our aggregate annual production capacity to 130,000 kilometers of soft optical cables to partially meet our fiber optic patch cord production requirement. We anticipate that in the future,

---

## BUSINESS

---

all of our soft optical cables produced in-house will be used for the production of fiber optic patch cords, together with certain types of soft optical cables that we do not produce, such as sheathed soft optical cables. We expect our soft optical cables produced in-house to constitute 34% of total soft optical cables required to produce our fiber optic patch cords upon commencement of full operations of our nine new soft optical cable production lines. We anticipate that in-house production may reduce our costs of sales and slightly improve our gross profit margin. The principal raw materials used for producing soft optical cables include optical fiber cores, polyvinylchloride materials (a kind of common synthetic thermoplastic materials), and aramid fibers (a kind of heat-resistant, strong synthetic fibers). For details on the production process of our soft optical cables, please see “– Production Process – Soft optical cables” in this section.

We also purchased soft optical cables externally from domestic suppliers. For the years ended December 31, 2008, 2009 and 2010, 99.8%, 99.9% and 99.8%, respectively, of the total soft optical cables we used for producing fiber optic patch cords were purchased from our suppliers. We will continue to purchase soft optical cables from third parties to meet the production requirement for our fiber optic patch cords sold in the overseas market in order to satisfy the higher technical specifications required by our overseas customers. See “– Raw Materials and Components” in this section. We believe that our in-house capability of producing soft optical cables enables us to control the quality of our products, reduce our costs and thus increase our profit margins.

### **Production Process**

#### *Fiber optic patch cords*

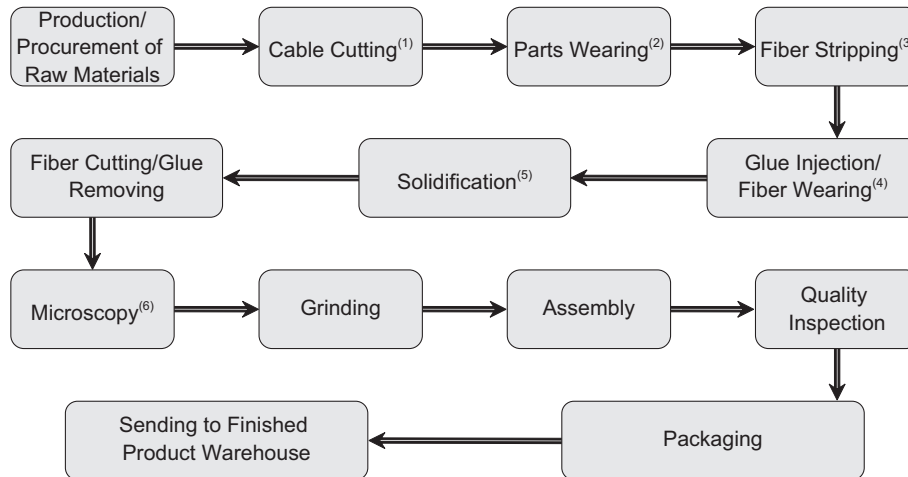
Our fiber optic patch cord production process begins with manufacturing or procuring raw materials. The key raw materials used in the production process include soft optical cables and ceramic ferrules. We usually first use the soft optical cables produced in-house to meet the production requirements before we use those purchased from our qualified suppliers in China. We purchase other raw materials from our qualified suppliers for our domestic orders in China, unless our customers designate specific suppliers. See “– Raw Materials and Components” in this section.

---

## BUSINESS

---

The following chart illustrates the main steps of the typical production process of our fiber optic patch cords:



- (1) Soft optical cables are cut into pieces of various lengths according to the customers' requirements.
- (2) Various parts are attached to the soft optical cables, which have been cut into the length as required by the customers.
- (3) We use special stripping equipment to remove coatings from soft optical cables based on the technical requirements of various fiber optic patch cords.
- (4) Adhesive is instilled into ceramic ferrules and optical fibers are inserted into the ceramic ferrules.
- (5) The ceramic ferrules are put into solidifying equipment to solidify.
- (6) We use special microscopes to inspect cross sections of the fiber optic patch cords.

### *Connection and distribution products and equipment room accessories*

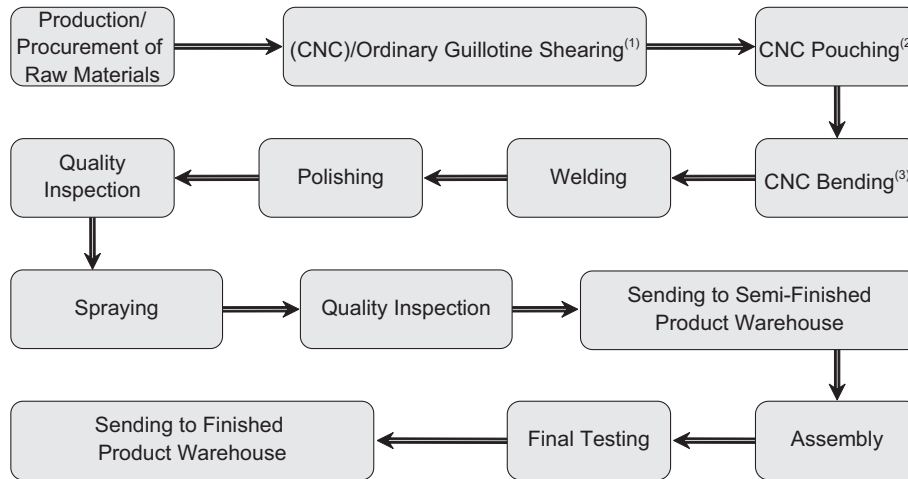
Production of connection and distribution products and equipment room accessories generally involves a machining process. To begin the process, our engineers design the products in accordance with our customers' requirements and prepare design drawings. Our mechanical design engineers then design the requisite tooling and molds and oversee the machining process.

---

## BUSINESS

---

The following chart illustrates the main steps of the typical machining process of our connection and distribution products and equipment room accessories:

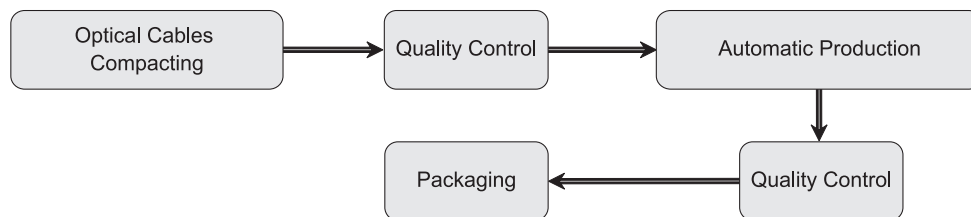


- (1) Steel plates are cut into different sizes as required to make various cabinets and other products.
- (2) We punch holes in and trim edges of the steel plates.
- (3) We bend parts in accordance with drawings for the specific products.

### *Soft optical cables*

We produce soft optical cables in an automatic process. During this process, a specially designed equipment mixes polyvinylchloride materials with aramid fibers to produce soft, strong outer tubes of soft optical cables, and then inserts optical fiber cores into the outer tubes to produce soft optical cables.

The following chart illustrates the main steps of the typical production process of our soft optical cables:





---

## BUSINESS

---

### AWARDS AND RECOGNITIONS

The table below sets forth some of our major awards and recognitions as of the Latest Practicable Date:

Award/Recognition	Issuing entity	Date of receipt
Top 50 Chinese Communications Equipment and Technology Suppliers (中國通信設備技術供應商50強)	China Communications Weekly (通信產業報社), Joint Center for China Management Cases (中國管理案例聯合中心) and Sohu IT (www.it.sohu.com)	May 2010
Satisfactory Enterprise in the Communications Industry of China (中國通信產業用戶滿意企業)	China Communications Weekly (通信產業報社), Joint Center for China Management Cases (中國管理案例聯合中心) and Sohu IT (www.it.sohu.com)	May 2010
One of the Top 10 Satisfactory and Competitive Brands in the Fiber Optic and Cable Communications Industry of China (中國通信光纖光纜行業用戶滿意十大競爭力品牌)	China Institute of Management Science (中國管理科學研究院), China International Market Association (中國國際市場協會), National High-tech Industry Brand Promotion Committee (全國高科技產業品牌推進委員會), China's First Brand Research Center (中國第一品牌研究中心), associated with several media	January 2010
One of the Top 50 Chinese Communications Equipment Suppliers in 2008 (2008中國通信設備供應商50強)	China Communications Weekly (通信產業報社), Joint Center for China Management Cases (中國管理案例聯合中心) and Sohu IT (www.it.sohu.com)	May 2009
Third Prize of Scientific Progress of Industrialization Project for Fiber Optic Patch Cord (FC/PC型光纖活動連接器產業化項目科技進步三等獎)	The People's Government of Hebei Province (河北省人民政府)	March 2009
A High-Tech Enterprise (高新技術企業)	Science and Technology Division of Hebei Province (河北省科學技術廳), Finance Bureau of Hebei Province (河北省財政廳), Office of the State Administration of Taxation of Hebei Province (河北省國家稅務局) and Local Taxation Bureau of Hebei Province (河北省地方稅務局)	December 2008
Certificate for Leading Sci-Tech Products of Small and Medium Enterprises in Hebei Province (for our FC fiber optic patch cords) (河北省中小企業行業科技領先產品)	The Small- and Medium-sized Enterprises Association of Hebei Province (河北省中小企業(鄉鎮企業)協會)	August 2008

---

## BUSINESS

---

Award/Recognition	Issuing entity	Date of receipt
Outstanding Award for Optical Communications Solutions in 2008 (2008 年度光通信優秀解決方案獎)	China Communications Weekly (通信產業報), China Information World (中國計算機報), China Electronics News (中國電子報), CCID net (www.ccidnet.com) (賽迪網) and ChinaCIE net (www.chinacie.com.cn) (中國通信器材網)	June 2008
Special Gold Award of China International Patent and Brand Exhibition (for our fiber optic patch cords and closure products) (中國國際專利與名牌博覽會特別金獎 (光纖活動連接器和光纖接頭盒))	The Organization Committee and the Accreditation Committee of China International Patent and Brand Exhibition (中國國際專利與名牌博覽會組織委員會 評審委員會)	November 2007
Project Certificate of the National Torch Program (for our FC fiber optic patch cords) (國家級火炬計劃證書 (光纖活動連接器))	The Torch High-tech Industry Development Center of the Ministry of Science and Technology of China (科學技術部火炬高技術產業開發中心)	April 2003

## CUSTOMERS

We sell our products in China as well as overseas markets, which include Ireland, New Zealand and Canada. Our domestic customers include telecommunications network operators, broadcast and television communications network operators and specialized communications network operators in China. Our overseas customers are distributors that sell our products to telecommunications network contractors. For the years ended December 31, 2008, 2009 and 2010, our domestic sales accounted for 32.3%, 83.7% and 76.6%, respectively, of our total revenue, and our overseas sales accounted for 67.7%, 16.3% and 23.4%, respectively, of our total revenue in the corresponding years. For the year ended December 31, 2008, we derived more revenue from overseas sales than domestic sales in China, as the major telecommunications network operators in China reduced their purchases as they went through significant reorganization and consolidation. Since 2009, our domestic sales increased due primarily to the growing demand for our products, driven by the rapid development of the Chinese communications industry in general and the expansion of the 3G networks in particular. We expect that our domestic sales will continue to constitute a majority of our total sales in the foreseeable future.

Our five largest customers together accounted for 78.2%, 63.2% and 76.2%, respectively, of our total revenue for the years ended December 31, 2008, 2009 and 2010, respectively. Our largest customer accounted for 31.6%, 25.5% and 29.7%, respectively, of our total revenue for the corresponding years. None of our directors, their respective associates or any of our shareholders holding more than 5% of our issued share capital after the Global Offering, to the knowledge of our directors, held any interests in any of our five largest customers during the Track Record Period.

---

## BUSINESS

---

### SALES AND MARKETING

We generally sell our products directly to domestic customers. We have sold our products internationally through distributors. The following table sets forth the breakdown of revenue by regions for the years indicated:

	Year ended December 31,					
	2008		2009		2010	
	RMB	% of Total Revenue	RMB	% of Total Revenue	RMB	% of Total Revenue
	<i>(RMB in thousands except percentages)</i>					
Revenue from the domestic market	107,938	32.3%	540,483	83.7%	642,196	76.6%
Revenue from overseas market	226,549	67.7%	105,167	16.3%	195,942	23.4%
Total revenue	<u>334,487</u>	<u>100.0%</u>	<u>645,650</u>	<u>100.0%</u>	<u>838,138</u>	<u>100.0%</u>

### Domestic Sales

We sell fiber optic patch cords, connection and distribution products and equipment room accessories directly to the communications network operators in China, including telecommunications network operators, broadcast and television communications network operators and specialized communications network operators. We have established long-standing relationships with our key customers. Sales to our top five customers collectively accounted for 78.2%, 63.2% and 76.2% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively. Under the contracts with our domestic customers, we typically receive the initial payment of 35% of the total contract price within 30 days after the completion of the preliminary inspection of our products, and the remaining contract price within one to three months after the completion of the final inspection. We offer credit terms ranging from three months to one year to three of the major telecommunications network operators in China.

## BUSINESS

The following table sets forth the revenues we derived from sales of our products to different types of domestic customers for the years indicated:

	Year ended December 31,					
	2008		2009		2010	
	RMB	% of Total Revenue	RMB	% of Total Revenue	RMB	% of Total Revenue
<i>(RMB in thousands except percentages)</i>						
Telecommunications network operators	81,314	75.3%	411,711	76.2%	514,337	80.1%
Broadcast and television communications network operators	2,154	2.0%	13,358	2.5%	48,657	7.6%
Specialized communications network operators	21,343	19.8%	79,666	14.7%	39,179	6.1%
Others*	3,127	2.9%	35,748	6.6%	40,023	6.2%
<b>Total</b>	<b>107,938</b>	<b>100.0%</b>	<b>540,483</b>	<b>100.0%</b>	<b>642,196</b>	<b>100.0%</b>

\* Others mainly consisted of sales of our products to distributors who purchase our products and resell them to end users.

### *Sales to telecommunications network operators in China*

We sell our products to the telecommunications network operators in China, including the three major players in the telecommunications industry in China. We have established long-standing relationships with these three key customers. For the year ended December 31, 2010, our direct sales to these three customers collectively amounted to RMB442.7 million, accounting for 52.8% of our total revenue in the same year.

In 2001, our FC fiber optic patch cords were granted the Network Access License for Telecommunications Equipment by the Ministry of Information Industry of the PRC, the predecessor of MIIT, and we began to supply fiber optic patch cords to one of the major telecommunications network operators in China in 2001. Our Network Access License was valid through January 2004. In February 2004, the Ministry of Information Industry issued a notice, pursuant to which the product authentication certificate issued by a qualified third party may substitute the Network Access License. For details of this notice, please see the section headed "Regulations – Industry Regulations – Notice Concerning the Implementation of the Products Certifications on Optical Cable and Telecommunications Equipment". Sifang Telecom received a product authentication certificate for FC/PC fiber optic patch cords in 2004 from the TLC Certificate Center. This certificate is subject to renewal every three years and is valid through May 2012 since our last renewal in 2009. Since 2006, these network operators have gradually implemented a centralized procurement policy, under which the national offices of these operators determine the qualification of suppliers based on the recommendations of their provincial-level subsidiaries and affiliates. For projects involving standard products, we obtain our sales of standard products through a bidding process. For projects involving customized products, we are selected as a qualified supplier based on negotiations with three of the telecommunication operators. Some of our customers, in particular three of the major telecommunications network operators in China only have a limited number of qualified suppliers due to their stringent vendor qualification process.

---

## BUSINESS

---

Although these telecommunications operators have a separate vendor selection process for each project, we believe our qualified vendor status and good relationships with these operators have enabled us to secure substantial orders and derive recurring revenue from them. As of December 31, 2010, the purchase commitments made by these three telecommunications operators collectively amounted to RMB97.5 million. Once we are selected for a project, we usually enter into a sales contract with the local subsidiary or affiliate of the relevant network operator. We believe that the centralized procurement policy benefits established suppliers like us as it reduces the market share of small manufacturers that rely on relationships with local subsidiaries of the national telecommunications network operators.

### *Sales to broadcast and television communications network operators*

In 2007, we began to sell our products to broadcast and television communications network operators, which are mainly provincial broadcast and television communications network operators in China. We generally enter into sales contracts with broadcast and television communications network operators after securing orders through a bidding process. As part of our sales and marketing efforts targeting broadcast and television communications network operators, we focus on promoting our products to these provincial operators to seek to participate in the bidding process. We anticipate that sales to these network operators will increase, primarily due to the popularization of digital TV in China and the expansion of their business scope attributable to the integration of the broadcast and television networks, the telecommunications networks and the Internet promulgated by the PRC government as well as our increased selling efforts targeting broadcast and television communications network operators.

### *Sales to specialized communications network operators*

In 2002, we began to sell our products to specialized communications network operators, such as the railway and highway communications network operators. We typically enter into sales contracts with specialized communications network operators through case-by-case negotiations. We anticipate that sales to these network operators will increase primarily due to the large-scale transition from traditional communications to fiber optic communications in China.

### **Overseas Sales**

We won our first major overseas contract in 2006. Our major international customers are distributors that sell our products to telecommunications network contractors. We have sold our products to five distributors located in Ireland, New Zealand and Canada that mainly engaged in distribution of telecommunications products. Such distributors then distributed our products to overseas end-customers. We make sales outside China through these distributors, in order to reduce the risk of receiving delayed payments from overseas end-customers. These five distributors are Independent Third Parties and do not compete with us due to the different target markets. Under the contracts with our overseas customers, we typically receive 60% of the total contract price within 30 days from bill of lading date, 30% of the total contract price within 60 days from the bill of lading date and the remaining contract price within 90 days from the bill of lading date.

We entered into sales contracts with the five overseas distributors based on case-by-case negotiations. The main terms of these sales contracts include a fixed sales volume, a mutually agreed price without adjustment mechanism and delivery terms. Revenue from the sales of goods to distributors is recognized when the significant risks and rewards of ownership of the goods have been transferred to the distributors.

---

## BUSINESS

---

During the years ended December 31, 2008, 2009 and 2010, our overseas sales amounted to RMB226.5 million, RMB105.2 million and RMB195.9 million, respectively, representing 67.7%, 16.3% and 23.4%, respectively, of our total revenue for the corresponding years. We will continue to sell our products to overseas customers if the terms are favorable to us. However, we plan to focus on the China market in the foreseeable future.

### **Pricing**

The factors that affect the pricing of our products sold in the domestic market include product quality and reliability, product design, pricing terms and our reputation and track record. The average selling price of our fiber optic patch cords sold in the domestic market was RMB47.6, RMB54.6 and RMB57.6 per unit in 2008, 2009 and 2010, respectively. The average cost of sales of our fiber optic patch cords sold in the domestic market was RMB36.0, RMB39.9 and RMB42.9 per unit in 2008, 2009 and 2010, respectively. The selling prices of our fiber optic patch cords sold in the overseas market are determined based on our negotiations with our overseas distributors who, in our understanding, use the prevailing overseas market prices as a basis in the price negotiations. The average selling price of our fiber optic patch cords sold in the overseas market was RMB410.6, RMB375.6 and RMB369.7 per unit in 2008, 2009 and 2010, respectively. The average cost of sales of our fiber optic patch cords sold in the overseas market was RMB166.1, RMB177.3 and RMB170.5 per unit in 2008, 2009 and 2010, respectively. We sold the same products in the overseas market and the domestic market during the Track Record Period. The average selling price and the cost of sales of our fiber optic patch cords sold in the overseas market are significantly higher than the same products sold in the domestic market due primarily to different market environment and higher costs in procuring raw materials and producing fiber optic patch cords sold in the overseas market to satisfy stricter international quality and technological requirements. During the Track Record Period, we usually purchased soft optical cables and ceramic ferrules, the principal raw materials for producing fiber optic patch cords, from domestic qualified suppliers to fulfill our domestic orders. For international orders, we typically sourced imported soft optical cables and ceramic ferrules in order to meet higher technical specifications required by our overseas customers, which led to significantly higher costs and average selling price than those in the domestic sales.

Under our sales contract with three of the major telecommunications network operators in China, the prices of our standard products are typically determined on a competitive tender basis, whereas the prices of our customized products are generally negotiated on an individual basis. We have a similar pricing regime for our products sold to the broadcast and television communications network operators. We generally possess greater pricing power with respect to our products sold to specialized communications network operators, primarily because those products are mostly customized.

### **Marketing and customer services**

We market our products by providing superior customer services before, during and after the sales. We begin our marketing efforts by proactively contacting our potential customers on a regular basis and providing information on our customized products and solutions. During the course of sales, we leverage our technical capability to design customized products to our customers' specifications, tailor the optical fiber solutions to their needs and assist them in installing the fiber optic network systems. Our technical support team, consisting of 55 marketing, sales and technical support professionals, is dedicated to providing technical services, conducting on-site inspections, offering operation consultancy services and technical training to our customers on a timely basis. Our sales contracts typically provide for a one-year product warranty. We did not experience any product returns, warranty claims and product liability claims and did not make any warranty provisions during the Track Record Period. We believe that the quality of our market-driven customer services is critical in maintaining and expanding our customer base.



---

## BUSINESS

---

### RAW MATERIALS AND COMPONENTS

The principal raw materials for producing fiber optic patch cords are soft optical cables and ceramic ferrules. For our domestic sales, we usually first use the soft optical cables produced in-house to meet the production requirements before we use those purchased from our qualified suppliers. We purchase other raw materials from our qualified suppliers for our domestic orders in China. For our international orders, we typically source imported soft optical cables and ceramic ferrules in order to meet higher technical specifications required by our overseas customers.

For the orders of our domestic sales, we use self-produced soft optical cables before outsourcing externally. The principal raw materials used for producing soft optical cables include optical fiber cores, polyvinylchloride materials, a common synthetic thermoplastic material, and aramid fibers, a kind of heat-resistant, strong synthetic fibers. We currently have one production line in Shijiazhuang, Hebei Province with an aggregate annual capacity of producing 13,000 kilometers of soft optical cables, which commenced operations in November 2008. Because we have been using this production line for testing and recording technical parameters of various types of soft optical cables we plan to produce with future new production lines, its utilization rate for 2008, 2009 and 2010 was only 0.1%, 2.1% and 3.5%, respectively, of the designed annual production capacity. For the years ended December 31, 2008 and 2009 and 2010, our soft optical cables produced in-house constituted 0.2%, 0.1% and 0.2%, respectively, of the total soft optical cables we used for producing fiber optic patch cords. We plan to build nine new production lines that, upon the full commencement of operations expected in 2011, will increase our aggregate annual production capacity to 130,000 kilometers of soft optical cables, which we believe will partially meet our internal soft optical cable component needs for the production of our fiber optic patch cords. We believe our in-house production of soft optical cables will enable us to control the quality of our products, reduce our costs and thus increase our profit margins. We purchase all of the ceramic ferrules required for our production from external suppliers. If presented with right opportunities, we will consider securing supply of ceramic ferrules through selective acquisitions of and strategic alliances with well-recognized manufacturers with advanced production lines, leading technology and stringent quality control. As of the Latest Practicable Date, we had not identified any targets or entered into any negotiation for such acquisitions or alliances.

In addition to soft optical cables and ceramic ferrules, we also purchase steel plates for producing our connection and distribution products and equipment room accessories. In addition, we source communications module, plastic and packaging materials from various suppliers based on the quality and reliability of their products.

We generally do not enter into long-term supply contracts with our suppliers. In general, credit period granted by our suppliers ranges from one month to twelve months. In 2008, we generally received credit terms of three months from our five largest suppliers. In 2009 and 2010, we typically paid our five largest suppliers 30%, 40%, 10% and 20% of the total price within one month, two months, three months and twelve months, respectively, from the receipt of goods.

During the years ended December 31, 2008, 2009 and 2010, purchases from our top five suppliers together accounted for 60.2%, 86.7% and 85.6%, respectively, of our total purchases of raw materials for the corresponding years, and the purchase from the largest supplier accounted for 26.0%, 25.4% and 23.2% respectively, of our total purchases of raw materials for the corresponding years. None of our directors, their respective associates or any of our shareholders holding more than 5% of our issued share capital after the Global Offering, to the knowledge of our directors, held any interests in any of our five largest suppliers during the Track Record Period.

### QUALITY CONTROL

We have a long-standing emphasis on quality control programs, as we believe that quality control is essential to our continued success. As of the Latest Practicable Date, we had a quality control team of 21 employees, representing 11.5% of our manufacturing and research and development personnel.



---

## BUSINESS

---

Our quality control programs start with the selection of suppliers of raw materials and pre-use testing of raw materials. The key components used in the production process include soft optical cables and ceramic ferrules. Our customers either designate a specific supplier from which we source these key raw materials, or allow us to source from our own qualified suppliers. See “– Raw Materials and Components” in this section. In the case that our customers allow us to purchase raw materials ourselves, we only purchase those raw materials from suppliers that have passed our quality and reliability assessment and have been admitted to our list of qualified vendors. Our purchasing department evaluates periodically various aspects of a supplier on the list, including its overall ability, technical capability, quality control over its production process and its financial health. Our quality control team inspects raw materials upon delivery. We return to suppliers any raw materials that do not pass our inspection.

Quality control measures are implemented substantially at all stages of our manufacturing process. For each key step of the manufacturing process, we have inspection and testing procedures in place prepared and reviewed by the members of our senior management in charge of production. We have testing equipment and technologies that contributed to the quality and reliability of our products. Upon the completion of the production process, we perform final inspections to ensure that our customers’ specifications and requirements are met prior to delivery of our products.

We have been ISO 9001: 2000 certified since 2002. Our ISO certification is valid through March 2014 and is subject to inspection every year and renewal every three years.

### **INVENTORY CONTROL**

We monitor and control our inventory levels in order to ensure that there is an adequate supply of raw materials for production. We adopt inventory control and make use of enterprise resources planning as well as internal information system to monitor the inventory level from time to time. We place purchase orders as close as possible to the required time of delivery, depending on our production requirements and the type of raw material or components. We normally maintain sufficient levels of inventory to ensure that our production process is not interrupted.

### **COMPETITION**

The fiber optic patch cord market in China is highly competitive, constantly evolving and relatively concentrated. According to CCID, the fiber optic patch cord market in China is characterized by competition with differentiated products, with the major players offering different types of products and targeting different customers. We face competition with respect to product quality and technical capabilities, design customization, pricing and payment terms, delivery terms, customer services, economies of scale and reputation.

The fiber optic patch cord industry in China has experienced significant consolidation in recent years, and is dominated by a few major players at present, with a large number of manufacturers competing for the rest of the market. According to CCID, there are approximately 30 companies manufacturing fiber optic patch cords in China at the end of 2010, and the top five manufacturers, including us, collectively accounted for 41.2% of the total market share in 2010 in terms of sales volume. Our fiber optic patch cord sales in 2010 accounted for 18.6% of the total sales volume of fiber optic patch cords in China, exceeding the combined market share of our two largest competitors in China by sales volume. Our principal competitors in China are domestic fiber optic patch cord manufacturers, including Sunsea, Centuryman, Longxing and Taiping. We face competition in the overseas market from international telecommunications equipment manufacturers, including LEMO, Tyco, 3M and ADC.

### RESEARCH AND DEVELOPMENT

We believe that one of our main strengths is our research and development capability. Our research and development efforts currently focus on developing small-sized and high-concentration fiber optic patch cords in line with the recent market trend for more compact communications equipment. We also focus on designing special fiber optic patch cord products, such as sheathed patch cords and outdoor patch cords, to suit specific needs of our customers and facilitate our sales. We were able to develop these products based on our existing product models using our own technologies and know-how, and therefore require less capital resources compared to development of entirely new products. As of the Latest Practicable Date, we had 19 research and development personnel. We launched our research and development projects in 2008. For the years ended December 31, 2008, 2009 and 2010, our research and development expenditures were RMB4.8 million, RMB5.0 million and RMB4.0 million, respectively. We plan to continue to dedicate considerable efforts and resources to research and development.

Our strong research and development capabilities have enabled us to win various awards and recognitions. In April 2003, the development of our FC fiber optic patch cords was certified as a National Torch Program Project by the PRC Ministry of Science and Technology. In 2004, the development of our FC fiber optic patch cords, the principal fiber optic patch cord product of our company, was certified by the NDRC as a specially supported project in the information industry for technology development and industry upgrading. See “– Awards and Recognitions” in this section.

In addition, we had cooperated with several well-known institutions in our industry, including Tsinghua University and Tianjin University, to develop new communications technologies and products. We believe our collaborative efforts with these institutions keep us abreast of the latest industry development and trends. For instance, we entered into a three-year cooperation agreement in November 2002 with Tsinghua University to jointly establish an optical communications laboratory in Tsinghua University. Under this agreement, we agreed to invest no less than RMB1.1 million in the laboratory and Tsinghua University agreed to conduct research and development of new optical communications technologies and assist in the commercialization of such technologies. Further, Tsinghua University and we agreed to determine the ownership of the intellectual property rights of the new technologies and products developed under the collaboration agreement on a case-by-case basis. The agreement with Tsinghua University was renewed in October 2005 and expired in November 2008, during which we invested RMB0.6 million in total. Through our cooperation with Tsinghua University, we have developed a type of advanced semiconductor lasers that will enable telecommunications operators to strengthen their optical signals. According to Grandall, our PRC legal advisor, given that the cooperation agreement we entered into with Tsinghua University does not provide for the intellectual property ownership of the technologies or products developed under such agreement and we have not entered into any further agreement with Tsinghua University regarding intellectual property ownership of such technologies or products, Tsinghua University has the right to apply for the patent of such technologies or products under the relevant PRC laws. Furthermore, if such patent application is approved, Sifang Telecom will be entitled to utilize the patent at no cost during its term. However, if Tsinghua University decides not to apply for the patent, the technologies or products shall be considered as a knowhow secret, for which Sifang Telecom could negotiate with Tsinghua University regarding its use, transfer and profit arrangement. If no agreement could be reached through the negotiation, both parties are entitled to use such knowhow secret. In April 2008, we entered into two technology development agreements with Tianjin University, under which we agreed to invest an aggregate of RMB180,000 for Tianjin University to develop advanced amplifiers and semiconductor lasers that can be used in optical fiber networks by telecommunications operators. Both agreements with Tianjin University ended in June 2008 and we invested RMB10,000 in total under them.

---

## BUSINESS

---

All of the above agreements with Tsinghua University and Tianjin University had expired as of the Latest Practicable Date. No profit was generated through our cooperation with Tsinghua University or Tianjin University, nor was any profit sharing arrangement made with these two institutions. As the technologies and products under our cooperation agreements with Tsinghua University and Tianjin University relate to active optical products whereas fiber optic patch cords belong to passive optical products, the intellectual property ownership of the former technologies and products will not affect the intellectual property ownership of our fiber optic patch cords, did not relate to our principal business operations during the Track Record Period and do not relate to our existing principal business operations.

### INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had 44 registered patents, 2 pending patent applications and one pending trademark application in China. We do not anticipate any material adverse impact on our operations or financial conditions should our pending patent applications not be granted.

We recognize the importance of protecting and enforcing our intellectual property rights. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. We were not aware of any material infringement of our intellectual property rights for the years ended December 31, 2008, 2009 and 2010, and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights. We are not aware of any pending or threatened claims against our Group relating to the infringement of intellectual property rights owned by third parties. Our employment contracts and procurement contracts contain confidentiality provisions to protect our confidential information and know-how. For further details of our intellectual property, please see the section headed “Appendix VI – Statutory and General Information – Further Information about our company” in this prospectus.

### INSURANCE

We maintain insurance coverage on our properties, equipment and transportation vehicles, which we consider to be exposed to major business risks. Consistent with what we believe to be customary practice in China, we do not carry any business interruption insurance.

Our insurance policies are typically reviewed on an annual basis. We believe that the existing insurance coverage of our business is adequate and is standard for our industry in China.

### EMPLOYEES AND EMPLOYEE BENEFITS

We had 288 full-time employees as of the Latest Practicable Date. The following table sets forth the number of our employees by function as of the Latest Practicable Date:

Function	Number of Employees
Manufacturing	163
Research and development	19
Marketing	36
Management and general administration	70
<b>Total</b>	<b>288</b>

---

## BUSINESS

---

Except for Mr. Hung, Randy King Kuen, our chief financial officer, who is based in Hong Kong, all of our employees are based in China. Our full-time employees in China participate in various employee benefit plans including pension, work-related injury benefits, medical benefit plans, unemployment insurance and childbirth insurance. Save for the service agreements of the Directors, the employment contracts generally have a term of two years. We also recruit part-time staff from time to time for production to ensure we have a sufficient labor force, particularly during peak seasons. We did not experience any labor shortage during the Track Record Period.

For a description of our Pre-IPO Share Option Scheme, please see the section headed “Share Capital – Pre-IPO Share Option Scheme and Share Option Scheme” in this prospectus.

Compensation for our full-time employees typically consists of base salary, performance-based salary and other allowances such as seniority pay and subsidies. In addition, based on our results of operations, we may award year-end bonuses to our employees solely at our discretion. We conduct performance appraisals for administrative and technical staff twice a year to provide our employees with feedback on their performance. We also participate in certain insurance plans for our employees. We invest in continuing education and training programs for our management and other employees to upgrade periodically their skills and knowledge.

We do not have a workers’ union. Our employees have the right to participate in or organize workers’ unions in accordance with PRC laws and regulations. We have not had any strikes or other labor disturbances that have materially interfered with our operations.

### **ENVIRONMENTAL, HEALTH AND SAFETY MATTERS**

#### **Environmental Matters**

We are committed to conducting our operations to comply with applicable environmental laws and regulations, and endeavor to mitigate the adverse effect of our operations on the environment. We are subject to environmental laws and regulations relating to the construction and operation of our plants, noise control, air and water emissions, water and ground protection, hazardous substances and waste management. We believe that we are in compliance with applicable environmental laws and regulations in all material aspects.

Grandall Legal Group, our PRC legal advisor, is of the opinion that as of the Latest Practicable Date, we had complied in all material aspects with the applicable PRC laws and regulations on environmental protection and that we were not subject to any material environmental claims, lawsuits, penalties or disciplinary actions. However, the PRC government is moving towards more rigorous enforcement of applicable environmental laws and regulations and the adoption of more stringent environmental standards. The future imposition of stricter environmental legislation could have a material adverse effect on our financial conditions and results of operations. For a detailed description of the environmental regulations applicable to us, please see the section headed “Regulations – Environmental Protection” in this prospectus.

#### **Health and Safety Matters**

Our business operations involve risks and hazards inherent in such activities. These risks and hazards could result in damage to, or destruction of, property or production facilities, personal injury, environmental damage, business interruption and possible legal liability. We have adopted various internal policies and taken protective measures at our production facilities to promote occupational safety and to ensure compliance with applicable laws and regulations. As of the Latest Practicable Date, we had not encountered any material unplanned outages due to health

---

## BUSINESS

---

and safety issues, nor had we received any health and safety related claim from any existing or former employees for any accident occurred during 2008, 2009 and 2010.

Grandall Legal Group, our PRC legal advisor, is of the opinion that as of the Latest Practicable Date, we had complied in all material aspects with the applicable PRC laws and regulations on health and safety, including the PRC Production Safety Law, the Regulation of Insurance for Work related Injury and implementation rules on work safety issued by various local governments in the places where we operate. As of the Latest Practicable Date, we had not been subject to any fines or administrative actions involving non-compliance with any relevant regulations, nor are we required to take any specific compliance measures. For a detailed description of the health and safety regulations applicable to us, please see the section headed “Regulations – Production Safety Law”.

### LEGAL COMPLIANCE AND PROCEEDINGS

#### Legal proceedings in the United States – the SEC Lawsuit and its Dismissal Notice

Pacific Gain Technologies was named as one of thirteen relief defendants (the “**Relief Defendants**”) in a complaint brought by the United States Securities and Exchange Commission (the “**Commission**”) against Rockford Funding Group, LLC (the “**Rockford Group**”) on December 7, 2009, in the United States District Court, Southern District of New York (the “**New York Southern District Court**”) (the “**SEC Lawsuit**”).<sup>1</sup> According to papers filed by the Commission with the New York Southern District Court, Rockford Group, is a New York limited liability company incorporated on December 22, 2008 and Rockford Group receives mail at 80 Broad Street, 5th Floor, New York, New York 10004. Rockford Group touted itself to potential investors as a leading private equity firm equipped with an US\$800 million pipeline of investment. According to papers filed by the Commission with the New York Southern District Court, Rockford Group used the Internet and unsolicited phone calls to reach out to potential investors and fraudulently sold millions of dollars of unregistered securities in less than eight months. Rockford Group also used its website to publicly solicit money from investors and also distributed by mail written sales materials to prospective and existing Rockford Group investors. Rockford Group’s web site and sales brochure included a number of false statements. According to the Commission, Rockford Group is not registered with the Commission in any capacity and no Rockford Group securities offering has ever been registered with the Commission. Mr. Genadi Yagodayev is the president and sole member of Rockford Funding Group LLC and one of the Relief Defendants. According to papers filed by the Commission, Genadi Yagodayev is the sole signatory on at least three Rockford Group bank accounts in the United States, at least one of which is held in the names of Rockford Group and Yagodayev (collectively, the “**Rockford Bank Accounts**”). Rockford Group’s US\$11 million in investor funds were deposited in the Rockford Bank Accounts. We confirm that there is no relationship between Rockford Funding Group LLC, our Group and the directors in our Group. We confirm that there is also no relationship between Mr. Genadi Yagodayev, our Group and the directors in our Group.

Pacific Gain Technologies obtained a final judgment (the “**Final Judgment**”) on August 6, 2010 which stipulates, among other things, that upon disgorgement by Pacific Gain Technologies of the Disgorgement Sum (as defined below), to the account of Clerk of the New York Southern District Court, (i) the Asset Freeze Order (as defined below) shall have no further force or effect, and (ii) Pacific Gain Technologies shall have no further liabilities (including disgorgement or

---

<sup>1</sup> SEC v. Rockford Funding Group, LLC, 09 CV 10047 (S.D.N.Y.).



---

## BUSINESS

---

interest obligations). On August 25, 2010, in accordance with the Final Judgment, Pacific Gain Technologies transferred the Disgorgement Sum to the designated account of the Clerk of the New York Southern District Court. Subsequently, the Commission issued a Notice of Voluntary Dismissal of Plaintiff's Claim Against Pacific Gain Technologies on September 23, 2010 (the "**Dismissal Notice**"). The Dismissal Notice was filed with the New York Southern District Court and the New York Southern District Court acknowledged the Dismissal Notice on September 24, 2010.

Further details of the SEC Lawsuit are as follows:

The Commission alleged that Rockford Group made false and misleading claims to investors concerning, among other things, its identity, the nature of its business opportunities and its plans. The Commission also alleged that the Rockford Group failed to use investor funds as promised and had instead, by the end of November 2009, wired at least US\$10.4 million of investor funds to bank accounts in the names of twelve Relief Defendants, located in Latvia and Hong Kong, for purposes completely unrelated to Rockford Group's purported investment strategies. The balance of the funds invested by Rockford Group investors remains on deposit in the Rockford Bank Accounts. According to the Commission, Pacific Gain Technologies, received funds in the form of two transfers equalling US\$311,007 (the "**Relevant Money**"), wired in October and November 2009 from Rockford's JP Morgan Bank Account to an account in Pacific Gain Technologies' name in Hong Kong (the "**Relevant Bank Account**").

Pacific Gain Technologies was named as one of thirteen relief defendants in the SEC Lawsuit. Unlike the Commission's claim against the *defendant* (Rockford Group), the Commission did not make any allegation of wrongdoing against the *relief defendants* (such as Pacific Gain Technologies). As confirmed by Lurie & Park, our U.S. legal advisor, a relief defendant is a defendant which has no legitimate claim or ownership interest in the property that is the subject of the litigation. In the SEC Lawsuit, the Commission argued that Pacific Gain Technologies did not have a legitimate claim to the Relevant Money received from Rockford Group investors and from the Rockford Group. As such, the Commission sought a return of the Relevant Money to the Rockford Group investors.

The Commission sought an order from the New York Southern District Court to among other things temporarily restrain and preliminarily enjoin Rockford Group from further violations of the Federal Securities Laws of the United States and for the New York Southern District Court to grant additional relief to preserve investors' assets. The additional relief sought by the Commission include requests for the New York Southern District Court to enter an asset freeze, to order an accounting, to order the repatriation of assets, to permit expedited discovery and to order the preservation of evidence.

Three attempts were made to serve Pacific Gain Technologies with court documents: (i) on December 8, 2009; (ii) on December 17, 2009; and (iii) on June 15, 2010. As confirmed by our directors, court documents issued on the first two occasions never reached Pacific Gain Technologies. Only the service of court documents on the third occasion, i.e. when the court documents were sent on June 15, 2010, had reached Pacific Gain Technologies. Pacific Gain Technologies' corporate secretarial firm received court documents regarding the SEC Lawsuit on June 18, 2010 and forwarded a copy of these documents to the directors of Pacific Gain Technologies on the same day.

### ***Repeated attempts in the service of court documents on Pacific Gain Technologies prior to June 2010***

On December 8, 2009, the New York Southern District Court issued an Order (the "**December 8, 2009 Order**"), granting a temporary relief as per the Commission's request and scheduling a

---

## BUSINESS

---

hearing for December 11, 2009 (the “**December 11 Hearing**”) regarding the Commission’s request for preliminary injunctive relief. The December 8, 2009 Order required that any papers opposing the Commission’s application to be submitted no later than December 10, 2009. The New York Southern District Court issued a summons in a civil action on Pacific Gain Technologies on December 8, 2009. Pacific Gain Technologies’ registered address was correctly stated on this summons. Our Group and our directors only learned about this summons after Pacific Gain Technologies was served with the June 15, 2010 Summons on June 18, 2010. Based on the public searches conducted by our company and the court documents received by Pacific Gain Technologies, it appears that there were no delivery instructions or delivery records attached to the summons issued on December 8, 2009. As such, it is not entirely clear whether any courier services provider had ever been engaged to deliver the court order in December 2009. The Defendant and the Relief Defendants did not submit any opposition papers.<sup>1</sup> The Commission was the only party present at the December 11 Hearing.

On December 16, 2009, the New York Southern District Court issued a preliminary injunction order freezing assets and granting other relief against Rockford Group and each of the Relief Defendants (the “**Asset Freeze Order**”). The Asset Freeze Order was to be served upon the Defendant and the Relief Defendants on or before December 18, 2009. However, as confirmed by Pacific Gain Technologies’ corporate secretarial firm, the Asset Freeze Order was never served on Pacific Gain Technologies at its registered address in Hong Kong. The directors of Pacific Gain Technologies and our Group have also confirmed that they were not aware of the Asset Freeze Order before June 19, 2010. Our Group and our directors only learned about the Asset Freeze Order as a result of public searches conducted after Pacific Gain Technologies was served with the June 15, 2010 Summons on June 18, 2010. See “Background of the U.S. Legal Proceedings” in this section for more details.

On December 17, 2009, the Commission attempted to serve the December 8, 2009 Order on Pacific Gain Technologies at an address in Kowloon, Hong Kong, (the “**December 17, 2009 Summons**”). Our directors confirm that the address in Kowloon is completely unknown to them and/or their associates and our Group is not related to the entity situated at the address in Kowloon. Pacific Gain Technologies did not receive a copy of the December 17, 2009 Summons. As such, Pacific Gain Technologies failed to respond to the Commission’s summons within the stipulated time.

As confirmed by the directors of Pacific Gain Technologies and our Group, none of them were aware of the U.S. Legal Proceedings until June 2010.

On June 15, 2010, the Commission served the December 8, 2009 Order on Pacific Gain Technologies at the address of Pacific Gain Technologies’ company secretarial firm (the “**June 15, 2010 Summons**”), within which the address stated was the registered address of Pacific Gain Technologies. Pacific Gain Technologies’ company secretarial firm received the June 15, 2010 Summons on June 18, 2010 and forwarded a copy of the June 15, 2010 Summons to the directors of Pacific Gain Technologies on the same day.

---

<sup>1</sup> At the December 11 Hearing, the Commission submitted a declaration of its counsel to the New York Southern District Court detailing its failed attempt to serve papers in support of its applications to four Relief Defendants, including Pacific Gain Technologies. The New York Southern District Court found the Commission’s declaration to be satisfactory.



### Sequence of events leading to the SEC Lawsuit

#### *Mr. Zhao Bing and his intended donation to a school in Canada*

Mr. Zhao Bing advised that he wanted to enrol his daughter (“**Zhao’s Daughter**”) in a private girls’ school in Canada (the “**School**”). Zhao’s Daughter applied to the School and received a letter of acknowledgement from the School in November 2008 confirming that it had received the application of Zhao’s Daughter for enrolment in the School. Since there were no news from the School regarding Zhao’s Daughter’s application and since Mr. Zhao Bing was not familiar with the application process for Canadian schools, Mr. Zhao Bing confirmed that he decided to fly to Canada on September 14, 2009, to provide Zhao’s Daughter with direct assistance on her application. As Mr. Zhao Bing was not familiar with the school system and the application process of schools in Canada, while waiting for the school in Canada’s decision as to his daughter acceptance for the 2009 to 2010 academic year, Mr. Zhao Bing confirmed that he helped his daughter to apply to the same school for the next academic year to ensure that, in the event that his daughter is not successful in her application to the school for the 2009 to 2010 academic year, she will be reconsidered by the school for the next academic year.

Mr. Zhao Bing understood that it was customary for parents of the School’s students to make donations to the School and Mr. Zhao Bing was under the impression that most parents would make such donations. On this basis, Mr. Zhao Bing immediately made arrangements to prepare money for the proposed donation, just in case that Zhao’s Daughter is admitted to the School. Since Mr. Zhao Bing was in Canada and as confirmed by him, he did not have sufficient foreign currency with him at that time, he contacted a friend (“**Zhao’s Friend**”) in October 2009 to borrow US\$300,000 (an amount decided by Mr. Zhao Bing on his own accord) for donation to the School upon Zhao’s Daughter’s enrolment at the School.

To the best knowledge of our directors, Zhao’s Friend is an Independent Third Party and is not related to our Group, our senior management and our shareholders (apart from his friendship with Mr. Zhao Bing). As Mr. Zhao Bing was in Canada at that time, he asked his assistant (“**Zhao’s Assistant**”) to assist him with the logistics on this matter. Accordingly, Zhao’s Assistant liaised directly with Zhao’s Friend. At the Latest Practicable Date, Zhao’s Assistant was still an employee of Sifang Telecom.

#### *Transfer of the Relevant Money into the Relevant Bank Account*

Zhao’s Friend advised that he approached his friend (the “**Arranger**”) for help in obtaining US\$300,000 because Zhao’s Friend did not have sufficient foreign currency (i.e. U.S. dollars) at that time.

In return for the Arranger’s help in obtaining US\$300,000, Zhao’s Friend advised that he provided the Arranger with the RMB equivalent of approximately US\$300,000 in cash.

Zhao’s Friend advised that he did not inform Zhao’s Assistant or Mr. Zhao Bing about such an arrangement. Mr. Zhao Bing confirms that he (i.e. Mr. Zhao Bing) and our Group, and to the best of his (Mr. Zhao Bing’s) knowledge, their respective associates were not aware, before and at the time of the transfer, that the sum of US\$300,000 transferred to the Relevant Bank Account was from the Rockford Group. Further, Zhao’s Friend confirmed that he was not aware that, before and at the time of the transfer, the sum of US\$300,000 transferred to the Relevant Bank Account was from Rockford Group.

---

## BUSINESS

---

Our company confirms that the Arranger is an Independent Third Party and to the best of their (i.e. our directors') knowledge, our Directors and senior management of our Group confirm that none of themselves and their respective associates know or has any relationship with the Arranger. Further, the Arranger has confirmed that he does not know Mr. Zhao Bing. Upon Zhao's Friend informing Zhao's Assistant that the money was available, Zhao's Assistant tried to contact Mr. Zhao Bing immediately. Zhao's Assistant was unable to contact Mr. Zhao Bing at that particular time when the money was ready to be transferred to Mr. Zhao Bing. In addition, Zhao's Assistant did not have any information about Mr. Zhao Bing's personal bank account details. Therefore, she decided, on her own accord and without the prior approval or authorization of Mr. Zhao Bing or any of Pacific Gain Technologies' directors, to provide Zhao's Friend with the details of the Relevant Bank Account and instructed Zhao's Friend to wire the money into the Relevant Bank Account. In turn, Zhao's Friend provided the Arranger with the account number for the Relevant Bank Account. Zhao's Friend was not aware of exactly how the Arranger had, in turn obtained the sum of money US\$300,000. Zhao's Friend did not consider or doubt the legality of the Arranger's source of funds at that time. As a result of subsequent arrangements between the Arranger and other party(ies) unknown to our Group and the directors of our Group, two transfers equalling US\$311,007 were wired from Rockford Group's JP Morgan Bank Account to the Relevant Bank Account in October and November 2009. According to Zhao's Friend, the amount received from Rockford Group's JP Morgan Bank Account was more than US\$300,000 because Mr. Zhao Bing had only requested for an approximate amount of money rather than an exact amount of money. Upon receipt of the full amount of money transferred from Rockford Group's JP Morgan Bank Account in late November 2009, Zhao's Assistant notified Mr. Zhao Bing about the receipt of the full amount of money.

Prior to the receipt of notification from Zhao's Assistant and after his return from Canada in January 2010, Mr. Zhao Bing did not ask Zhao's Assistant about the deposit of the sum of money US\$300,000 from Zhao's Friend because Zhao's Daughter's application to the School was still pending and there was no immediate need for Mr. Zhao Bing to donate the sum of money US\$300,000. Since Mr. Zhao Bing was in Canada in December 2009, Mr. Zhao Bing suggested for Mr. Meng, another executive director of our Group companies, to contact Zhao's Assistant to find out more about the circumstances surrounding the transfer of the Relevant Amount into the Relevant Account. Mr. Zhao Bing ascertained, based on his long-term working relationship with Mr. Meng, that Mr. Meng could be entrusted with the task of following up on this matter while he (i.e. Mr. Zhao Bing) was away in Canada in December 2009. Mr. Meng contacted Zhao's Assistant and liaised with Zhao's Assistant to gather background information on this matter. At that point in time, there was no reason for Mr. Zhao Bing to believe that it would be necessary to question the specific arrangements which Zhao's Friend made to obtain the sum of money US\$300,000 because this was a personal matter for Zhao's Friend. Apart from Mr. Zhao Bing, Zhao's Assistant did not try to contact anyone else about the deposit of the sum of money US\$300,000.

### ***Meeting with the Hong Kong Police***

Mr. Hermann Leung, the only director of Pacific Gain Technologies at the time who ordinarily resided in Hong Kong, was asked by the Hong Kong Police to visit the police station to assist in some investigations by the Financial Investigations Division of the Narcotics Bureau (毒品調查科財富調查組) regarding a sum of money which had been wired into the Relevant Bank Account. Accordingly, on December 18, 2009, Mr. Hermann Leung went to the Hong Kong Police Headquarters to assist in such investigations. To the best knowledge of Mr. Hermann Leung's understanding, there was no indication from the relevant officer of the Hong Kong Police that Pacific Gain Technologies was the subject of any legal proceedings in Hong Kong. Around December 20, 2009, Mr. Hermann Leung advised Mr. Meng Yuxiao, our executive director and a director of Pacific Gain Technologies, that Pacific Gain Technologies should not use the Relevant Money in the Relevant Bank Account. Because of the Hong Kong Police's involvement, Mr.

---

## BUSINESS

---

Hermann Leung further inquired with Mr. Meng Yuxiao regarding the source of the Relevant Money. As a result of this, Pacific Gain Technologies did not transfer or otherwise deal with the Relevant Money thereupon. Mr. Hermann Leung confirmed that he obtained background documents as set out below from Mr. Meng Yuxiao and faxed these documents (the “**Background Documents**”) to the Hong Kong Police on December 21, 2009, to assist with the investigations:

- (i) a copy of the identification card of Zhao’s Friend; and
- (ii) copies of identification documents in relation to the Arranger, including a page of the Arranger’s passport, his certificate of registration (place of residence) and his certificate of payment of unified tax.

Mr. Meng Yuxiao informed Mr. Zhao Bing on December 16, 2009 about the Hong Kong Police’s phone call to Mr. Hermann Leung. As Mr. Zhao Bing was in Canada at the time, Mr. Zhao Bing suggested Mr. Meng Yuxiao to contact Zhao’s Assistant to gather background documents with respect to this matter. In turn, Zhao’s Assistant advised that she contacted Zhao’s Friend for more information. Zhao’s Friend told her that he asked the Arranger to help obtain the sum of money US\$300,000 and provided her the Background Documents, which had been finally provided to the Hong Kong Police by Mr. Hermann Leung as illustrated above.

Mr. Zhao Bing also told Zhao’s Friend that he would only repay his borrowing from Zhao’s Friend after such investigations have been cleared. Subsequently, and in light of the fact that Pacific Gain Technologies had disgorged the Relevant Money to the SEC, Mr. Zhao Bing and Zhao’s Friend reached an understanding that Mr. Zhao Bing would not need to repay his borrowing to Zhao’s Friend.

### ***The management’s response to Mr. Hermann Leung’s meeting with the Hong Kong Police***

#### *The management’s response*

Our Company provided the Background Documents to Mr. Hermann Leung which Mr. Hermann Leung faxed to the Hong Kong Police on December 21, 2009.

#### *Mr. Zhao Bing’s response*

Subsequent to Mr. Hermann Leung’s meeting with the Hong Kong Police in December 2009, Mr. Zhao Bing advised Mr. Hermann Leung to follow up with the Hong Kong Police on the same matter in January 2010 and to offer to visit the Hong Kong Police to assist with the Hong Kong Police’s queries into the transfer of the Relevant Money into the Relevant Account if it was necessary. As advised by Mr. Hermann Leung, he was unable to get in contact with the Hong Kong Police despite repeated phone calls to the Hong Kong Police in January 2010.

Since both Mr. Zhao Bing and Zhao’s Friend were not aware of exactly how the Arranger obtained the Relevant Money, and since Mr. Zhao Bing confirmed that he was not himself personally acquainted with the Arranger, in practical terms, Mr. Zhao Bing could not obtain any further information on the transfer of the Relevant Money to the Relevant Account. Mr. Zhao Bing also confirms that to the best of his knowledge and up to the Latest Practicable Date, there was no relationship between Rockford Group on the one hand and himself and his associates on the other hand.

Up to the Latest Practicable Date, Mr. Zhao Bing, Mr. Hermann Leung and the directors of our Group had not received any further request from the Hong Kong police to provide any further assistance.

---

## BUSINESS

---

Our company and Mr. Hermann Leung each advised that there was no reason for us to believe that any of our Group, our directors and/or their respective associates was under any investigation in relation to the U.S. Legal Proceedings as at the Latest Practicable Date. Mr. Hermann Leung further confirms that no implicating facts were alleged by the Hong Kong Police to the best of his knowledge.

Our company also made enquiries regarding the transfer of the Relevant Money to the Relevant Account. Such enquiries conducted by our company included interviews with Zhao's Assistant, all the directors of our Group, members of the senior management of our Group, Zhao's Friend and the Arranger. Further to such enquiries, each of our directors, the senior management of our Group, Zhao's Friend and Zhao's Assistant confirmed that, up to the Latest Practicable Date, to the best of his/her knowledge, there was no relationship between himself/herself and his/her associates on the one hand and Rockford Group on the other hand. Also, to the best knowledge of our company after due enquiry with the Arranger, the Arranger does not know and has never heard of Rockford Group.

### ***Immediate steps taken by our Group upon receipt of court documents in June 2010***

As set out above, three attempts were made to serve court documents in relation to the SEC Lawsuit. Pacific Gain Technologies was served with court documents in relation to the SEC Lawsuit on three occasions, on December 8, 2009, December 17, 2009 and June 15, 2010. According to Pacific Gain Technologies' company secretarial firm, they did not receive the documents in December 2009 and they were not informed about the U.S. Legal Proceedings until they received the June 15, 2010 Summons on June 18, 2010. Pacific Gain Technologies' company secretarial firm has confirmed that the address stated in the summons on December 8, 2009 was correct, which was the registered address of Pacific Gain Technologies. Upon receipt of the June 15, 2010 Summons on June 18, 2010, staff from the company secretarial firm immediately forwarded these documents to Mr. Hermann Leung, being the only director of Pacific Gain Technologies ordinarily residing in Hong Kong and hence the first point of contact between the company secretarial firm and Pacific Gain Technologies, who then forwarded the same to the other directors of Pacific Gain Technologies.

Further, the directors of Pacific Gain Technologies and our Group were not aware of the Asset Freeze Order prior to June 19, 2010. After we received a copy of the June 15, 2010 Summons on June 18, 2010, we conducted some public searches and obtained a copy of the Asset Freeze Order on June 19, 2010. After becoming aware that Pacific Gain Technologies was one of the relief defendants under the SEC Lawsuit involving the Relevant Money, Pacific Gain Technologies continued to refrain from using the Relevant Money in the Relevant Bank Account. On June 25, 2010, Pacific Gain Technologies transmitted money required for its daily operations from the Relevant Bank Account to another one of our company's bank accounts in China. After the successful completion of the transfer, Pacific Gain Technologies noted that the balance available for use in the Relevant Bank Account did not include the entire sum of the Relevant Money, Pacific Gain Technologies made inquiries with the bank and was informed that the Relevant Money was in fact subject to a freezing order. Up till then, our Group did not receive any formal notice from the bank in relation to the imposition of such freezing order.

### **Legal proceedings in the United States – the USA Lawsuit**

#### **Background on the USA Lawsuit and its Dismissal Notice**

On July 9, 2010, the United States Attorney's Office for the Eastern District of New York ("EDNY") filed a civil action *in rem* against all funds on deposit at six bank accounts in Hong Kong

---

## BUSINESS

---

and Latvia (“**the Defendant Accounts**”) held in the name of six companies respectively, including the Relevant Bank Account (“**the USA Lawsuit**”). The action in the United States District Court, Eastern District of New York (Brooklyn) (the “**New York Eastern District Court**”) sought to forfeit and condemn to the use and benefit of the United States all funds on deposit in the Relevant Bank Account.

The USA Lawsuit contained content similar to the complaint in the SEC Lawsuit, stating that Rockford Group made false and misleading claims to investors and failed to use investor funds as promised and had instead, wired over US\$10.5 million of investor funds to bank accounts located in Latvia, Hong Kong, Panama, and Vietnam for purposes unrelated to Rockford Group’s purported investment strategies. According to the complaint, the Relevant Bank Account received the Relevant Money as of November 15, 2009. The complaint also mentioned the Asset Freeze Order being issued in December 2009. The *in rem* action seeks to forfeit and condemn to the use and benefit of the United States all funds in the Defendant Accounts.

Given that the USA Lawsuit appears to be based on the same facts as the settled SEC Lawsuit over the transfer of the Relevant Money from Rockford Group’s JP Morgan Bank Account to the Relevant Bank Account, Pacific Gain Technologies’ United States litigation counsel lobbied for the USA Lawsuit to be dismissed.

The EDNY issued a notice of dismissal with prejudice on November 4, 2010 (the “**EDNY Dismissal Notice**”). The judge in the New York Eastern District Court countersigned the EDNY Dismissal Notice on the same day and the EDNY Dismissal Notice was filed in the same court on November 10, 2010.

The USA Lawsuit is an *in rem* action, which is a lawsuit filed just against a property, whereas the SEC Lawsuit was an *in personam* action, which was a lawsuit filed against a person/entity and its property. Unlike an action in personam, in an *in rem* action, judgment is entered against the property and not its owner.

Since the USA Lawsuit was a civil *in rem* action which did not require service on Pacific Gain Technologies but only upon the entity that is the custodian of the asset (which would be a bank (the Relevant Bank) in this case since it is (the Relevant Bank Account) that was at issue), EDNY did not attempt service of the complaint in the USA Lawsuit upon Pacific Gain Technologies.<sup>1</sup> Pacific Gain Technologies only learned about the USA Lawsuit as a result of public searches conducted in November 2010.

### **The status of the U.S. Legal Proceedings at the Latest Practicable Date**

We have engaged a United States litigation counsel to handle the U.S. Legal Proceedings.

#### ***The SEC Lawsuit***

A final judgment as to Pacific Gain Technologies was issued on August 6, 2010 (the “**Final Judgment**”). Pacific Gain Technologies was ordered to disgorge US\$311,007, representing profits gained as a result of the conduct alleged in the Commission’s complaint, together with prejudgment interest thereon in the amount of US\$7,951.47, for a total of US\$318,958.47 (the “**Disgorgement Sum**”) within fourteen days of the Final Judgment. The Asset Freeze Order was modified to permit

---

<sup>1</sup> As confirmed by EDNY to Pacific Gain Technologies’ United States litigation counsel on November 8, 2010.



---

## BUSINESS

---

Pacific Gain Technologies to transfer the US\$318,958.47 held pursuant to the Asset Freeze Order to the New York Southern District Court to satisfy Pacific Gain Technologies' disgorgement obligation. As stated above, the Final Judgment stipulates that, upon satisfaction of Pacific Gain Technologies' disgorgement obligation listed above, the Asset Freeze Order has no further force or effect and Pacific Gain Technologies has no further liabilities pursuant to the SEC Lawsuit.

Pacific Gain Technologies satisfied the disgorgement obligation and made the payment of the Disgorgement Sum on August 25, 2010. In doing so, Pacific Gain Technologies relinquished all legal and equitable right, title, and interest in such funds. On September 24, 2010, the Commission issued a Dismissal Notice. The Dismissal Notice was filed with the New York Southern District Court and the New York Southern District Court acknowledged the Dismissal Notice on September 24, 2010.

### ***The USA Lawsuit***

Given that the USA Lawsuit appears to be based on the same facts as the settled SEC Lawsuit over the transfer of the sum of money between the same parties, Pacific Gain Technologies' United States litigation counsel lobbied for the USA Lawsuit to be dismissed.

EDNY issued a notice of dismissal on November 4, 2010 (the "**EDNY Dismissal Notice**"). The judge in the New York Eastern District Court countersigned the EDNY Dismissal Notice on the same day and the EDNY Dismissal Notice was filed in the same court on November 10, 2010.

### **Potential consequences for our company and our Group**

The SEC Lawsuit was settled by Pacific Gain Technologies' United States litigation counsel by arranging for the remittance of the Disgorgement Sum to the United States District Court. Given that the USA Lawsuit was also based on the same facts as the SEC Lawsuit over the transfer of the same Relevant Money between principally the same parties, Pacific Gain Technologies' United States litigation counsel also secured a voluntary dismissal of the USA Lawsuit by notifying the United States Attorney's Office of the remittance of the Disgorgement Sum to the United States District Court. Other than the SEC Lawsuit and the USA Lawsuit which have been dismissed, up to the Latest Practicable Date, our U.S. legal advisor was not aware of any other lawsuits instituted against Pacific Gain Technologies or other members of our Group or our directors by any regulatory bodies of the United States government. Accordingly, our directors confirm, to the best of their knowledge and belief, that the U.S. Legal Proceedings have not affected and will not affect our Group's operations and financial position.

### **Actions taken to mitigate the potential consequences of the U.S. Legal Proceedings**

#### ***Measures adopted to improve internal control of bank accounts***

Our Group has worked with a reputable external consulting firm as our internal control advisor to identify and delineate the purpose of our bank accounts. We have established and implemented clear guidelines for financial management, in particular, for staff in the handling of our Group's bank accounts. For example, the guidelines stipulate that staff should not use any of our Group's bank accounts for handling personal transactions or to receive funds for other entities and individuals. The guidelines also specify that staff should not set up, alter or close any of our Group's bank accounts without the prior approval of the directors or authorized senior management. The audit committee has established a confidential communication channel for the audit committee chairman to receive concerns raised by employees of our company about possible improprieties in financial reporting, internal control or other matters including improper and personal use of bank accounts.

---

## BUSINESS

---

The chairman of the audit committee has been mandated to promptly communicate these concerns to the audit committee, launch investigations and other follow-up actions. The audit committee has been authorized, in its own discretion, to engage external auditors, counsel or other experts to assist in the investigation. Our company has designated Mr. Hung, Randy King Kuen, our chief financial officer, to supervise and oversee the guidelines and the approval process. The measures taken by our Group will prevent the unauthorized use of our Group's bank accounts for purposes unrelated to our Group's operation and business in the future.

In addition, Mr. Zhao Bing has given us an indemnity in respect of, among other things, all damages, losses and liabilities which might be suffered or incurred by Pacific Gain Technologies or any member of our Group resulting from or in connection with the U.S. Legal Proceedings.

As at the Latest Practicable Date, our PRC legal advisor, Grandall Legal Group, had advised us that our Group had complied with all relevant money laundering laws and regulations and that neither our Group nor its directors were under any investigations in relation to such money laundering laws and regulations in the PRC. In addition, each of our directors confirms that our Group and they are in compliance with all relevant money laundering laws and regulations in the PRC and Hong Kong and that none of them are currently under any investigations in relation to such money laundering laws and regulations.

Further, as at the Latest Practicable Date and save as disclosed in this section, our directors confirm that there are no other litigation or arbitration proceedings pending or threatened against us or any of our directors that could have a material adverse effect on our financial condition or results of operation.

### ***Other measures***

We will continue to engage legal advisors to advise us on compliance and corporate governance matters.

We have established a corporate governance committee with clearly delineated objectives and responsibilities to enhance the corporate governance of our Group. The corporate governance committee comprises 3 members, including Mr. Hung, Randy King Kuen, and two of our independent non-executive directors who have extensive experience as directors of Hong Kong listed companies. The corporate governance committee will work closely with the board of directors of our company, our external consulting firm, our compliance advisor and our legal advisors to adopt a compliance program for our Group, and to implement new policies and protocols to oversee conduct of all employees, including directors and senior management. Such a compliance program will provide a mechanism for the anonymous reporting of suspected misconduct, complaints and concerns regarding the handling of accounts and other matters. The corporate governance committee will implement policies for all employees to report any litigation or significant matters to the board of directors of our company in a timely manner and the board of directors of our company will discuss such litigation and/or significant matters to ensure timely and appropriate disclosure of such matters to the relevant authorities and the public. The members of the audit committee of our company will continue to monitor and review our company's internal control after Listing.

As discussed below, the audit committee has been delegated with specific responsibilities to review bank account activities, material bank transactions and internal controls on bank account management. After Listing, the corporate governance committee will collaborate with the audit committee to consider the effectiveness of the audit committee's work on a periodic basis (i.e. once a year) to ensure that sound corporate governance measures are in place to prevent money laundering and the mishandling of cash and bank accounts. The corporate governance committee



---

## BUSINESS

---

will also take steps, including the following, to ensure that all price sensitive information will be released to the relevant authorities and the public in a timely manner and in accordance with the relevant rules and regulations:

- remind each director and member of the senior management of our company to review relevant provisions under the Listing Rules and the Guide on Disclosure of Price Sensitive Information published by the Stock Exchange periodically;
- oversee the preparation, update and implementation of the continuous disclosure and communication policy and materiality guidelines for directors and members of the senior management of our company;
- provide a clear and direct communication channel for directors and members of the senior management of our company to report on potentially discloseable transactions and events, including potential litigation in a timely manner;
- oversee the preparation, update and implementation of an escalation and incident reporting policy setting out the manner in which relevant incidents are escalated and reported within our Group in a timely manner;
- collaborate with the audit committee to establish a whistle-blowing policy<sup>1</sup> and a confidential communication channel to facilitate internal reporting by employees on any illegal, improper and irregular behavior by any member of our Group directly to the board of directors of our company in a timely manner and without fear or reprisal or victimization; and
- collaborate with the audit committee to oversee the internal audit department to perform regular review of the relevant procedures and protocols for ensuring proper compliance with: (i) the continuous disclosure and communication policy; (ii) the materiality guidelines; (iii) the escalation and incident reporting policy and; (iv) the whistle-blowing policy summarized above.

We have delegated the audit committee with specific responsibilities to review bank account activities and material bank transactions to detect and prevent improper bank activities and transactions after the Listing.

We have mandated the audit committee to review the internal controls and risk management systems of our company, including the internal controls on bank account management and the monitoring of bank transactions. On a quarterly basis, our chief financial officer, Mr. Randy Hung, would scrutinize the report of bank account activities, material bank transactions and all incoming wire transfers. Any unusual items or irregularities will be reported to our board of directors as well as the audit committee immediately.

We have also established an internal audit division which reports to our board of directors from time to time, and upon Listing, will report to the audit committee on a quarterly basis. The internal audit division is mandated to monitor the design and operating effectiveness of internal controls, including the internal controls on prohibition of improper use of our company's bank accounts, and report on its findings of any material deviations from our company policies and guidelines.

---

<sup>1</sup> A copy of the whistle-blowing policy guidelines, which encourage employees to report suspected misconduct in a timely manner, has been made available to all employees.

---

## BUSINESS

---

Our executive directors and senior management attended trainings conducted by the Hong Kong Institute of Directors from March 11 to March 12, 2011 and obtained the Certificate on the Role of a Listed Company Directors issued by the Hong Kong Institute of Directors on March 12, 2011. Our directors and senior management confirm that they understand their obligations as directors and senior management as well as our corporate governance mechanisms.

As disclosed in section headed “Business – Measures Adopted to ensure Future Compliance” in this prospectus, our company has made arrangements with a professional training body in Hong Kong to provide trainings to our directors and senior management for a duration of two to three hours per session every quarter for the two years immediately after the Listing.

Our corporate governance committee has been charged with specific responsibilities to oversee the provision of extensive and ongoing training on Listing Rules and corporate governance matters to all our directors, senior management and our finance staff.

### **Compliance with PRC laws and regulations**

As of the Latest Practicable Date, our directors, as advised by our PRC legal advisor, Grandall Legal Group, confirmed that we had complied with applicable PRC laws and regulations in all material aspects during the Track Record Period and have obtained permits, licenses, qualifications, authorizations and approvals material to our business operations.

As of the Latest Practicable Date, according to the opinion of Grandall Legal Group, our PRC legal advisor, the requirement for the CSRC’s approval regarding the overseas listing of offshore SPVs under the M&A Rules does not apply to the proposed Listing for the following reasons:

- When our company purchased the then entire registered share capital of Sifang Telecom from the Pre-reorganization Shareholders, the Initial Shareholder of our company was an Independent Third Party that was neither affiliated with nor controlled by Sifang Telecom and/or the Pre-reorganization Shareholders. As a result, this share transfer was not subject to Article 11 of the M&A Rules.
- The transfer of our shares from the Initial Shareholder to Kemy in September 2007 was not subject to the M&A Rules because (i) the PRC laws do not require a domestic natural person to obtain any governmental approval to make an overseas investment through a company incorporated outside of the PRC; and (ii) this share transfer took place outside of the PRC.

A summary of the M&A Rules is set out in this section headed “Regulations – Supervision and Administration over Foreign Exchange – Acquisition of Domestic Enterprises by Foreign Investors”.

Pursuant to the SAFE Circular No.75, our beneficial shareholders who are PRC residents, namely, Mr. Zhao Bing (趙兵), Mr. Meng Yuxiao (孟欲曉), Ms. Shi Shuran (史淑然), Mr. Zhang Yonglu (張永錄), Mr. Deng Xuejun (鄧學軍) and Mr. Han Liren (韓立人), have submitted applications to the SAFE Hebei Branch for foreign exchange registration, as advised by Grandall Legal Group, our PRC legal advisor. The SAFE Hebei Branch instructed the PRC Beneficial Shareholders to pay a fine of RMB30,000 each as a result of their failure to submit their SAFE applications within the prescribed time frame. The PRC Beneficial Shareholders paid such fine on July 20, 2010 and made their registrations with the SAFE Hebei Branch on July 23, 2010. A description of the SAFE Circular No. 75 is set out in the section headed “Regulations – Supervision and Administration over Foreign Exchange – Foreign Currency Exchange Control”.

### **Non-Compliance with the Companies Ordinance**

#### ***Preparation of Accounts***

Pursuant to section 122 of the Companies Ordinance, the directors of a company incorporated in Hong Kong are required to cause the profit and loss account and balance sheet of the company to be made up and laid before the company at each of its annual general meetings.

Since the incorporation of Pacific Gain Technologies, one of our subsidiaries which was incorporated in Hong Kong on June 20, 2008, its then directors have delegated its secretarial and accounting matters to a company secretarial firm associated with a law firm. Until recently, Pacific Gain Technologies had not prepared any accounts for the period from its incorporation on June 20, 2008 to March 31, 2009 (the “**2008-2009 Financial Year**”). In May 2010, our directors discovered that Pacific Gain Technologies had failed to prepare accounts for the 2008-2009 Financial Year as required under the Companies Ordinance. In response to this, the directors of Pacific Gain Technologies immediately took steps to arrange for Pacific Gain Technologies to appoint an accounting firm in Hong Kong on May 11, 2010 to prepare the accounts of Pacific Gain Technologies for the 2008-2009 Financial Year.

On June 22, 2010, Pacific Gain Technologies applied to the High Court of Hong Kong for an extension of time for laying its accounts for the 2008-2009 Financial Year before its member in a general meeting pursuant to section 122 of the Companies Ordinance. On July 15, 2010, the requested court order was granted by the High Court of Hong Kong, pursuant to which the period for the laying of the accounts of Pacific Gain Technologies for the 2008-2009 Financial Year was extended to such period up to and including August 31, 2010. Consequently, the accounts prepared by the abovementioned accounting firm were approved and adopted by the sole member of Pacific Gain Technologies on July 27, 2010.

Upon the grant of the requested court order and the laying of such accounts before the sole member of Pacific Gain Technologies within the extended time, Pacific Gain Technologies is no longer in breach of section 122 of the Companies Ordinance.

#### ***Convening of Annual General Meeting***

Pursuant to section 111 of the Companies Ordinance, a company incorporated in Hong Kong is required in each year (except for the first eighteen months from its incorporation) to hold an annual general meeting in addition to any other meetings in that year, and is required to specify the meeting as such in the notices calling it.

No valid annual general meeting has been convened since the incorporation of Pacific Gain Technologies in June 2008. In response to this, Pacific Gain Technologies applied to the High Court of Hong Kong on June 22, 2010 for an order allowing Pacific Gain Technologies to call a general meeting to be held on or before August 31, 2010 and treat such meeting as the annual general meeting of Pacific Gain Technologies for the 2008-2009 Financial Year which should have been held on or before December 19, 2009 pursuant to section 111 of the Companies Ordinance. On July 15, 2010, the requested court order was granted by the High Court of Hong Kong, pursuant to which Pacific Gain Technologies be allowed to call a general meeting to be held on or before August 31, 2010 and such meeting shall be treated as the annual general meeting for the 2008-2009 Financial Year. Consequently, a general meeting of Pacific Gain Technologies was held on July 27, 2010. Upon the grant of the requested court order and the general meeting for the 2008-2009 Financial Year having been held within the extended time, Pacific Gain Technologies is no longer in breach of section 111 of the Companies Ordinance. Our company confirms that the abovementioned non-compliance with the Companies Ordinance would not have a significant impact on our Group’s operation.

**Non-Compliance with the Inland Revenue Ordinance**

Pursuant to sections 14 and 51 of the Inland Revenue Ordinance, a company incorporated in Hong Kong is required in each year to file a tax return and to pay profits tax to the Hong Kong Inland Revenue Department.

Pacific Gain Technologies has not filed any tax return nor paid any tax in the year of assessment of 2008-2009. In response to this, in May 2010, Pacific Gain Technologies appointed a tax advisor and an accounting firm in Hong Kong to prepare a tax return for the 2008-2009 Financial Year and audited financial statements for the 2008-2009 Financial Year respectively, which were both submitted to the Hong Kong Inland Revenue Department on June 9, 2010. In accordance with the audited financial statements of Pacific Gain Technologies for the 2008-2009 Financial Year audited by such accounting firm, all profits of Pacific Gain Technologies were offshore profits and therefore not subject to Hong Kong profits tax. Consequently, Pacific Gain Technologies received a demand note for a penalty fee of HK\$1,200 issued by the Inland Revenue Department on July 22, 2010 and arranged for the payment of such penalty fee on the same day. As a result of the payment of the penalty fee, Pacific Gain Technologies will not be penalized for its non-compliance under section 14 and section 51 of the Inland Revenue Ordinance for the 2008-2009 Financial Year provided that any tax payable is paid within the time specified by the Inland Revenue Department. Our company confirms that the abovementioned non-compliance with the Inland Revenue Ordinance would not have a significant impact on our Group's operation.

***Reasons for Non-Compliance***

Since the incorporation of Pacific Gain Technologies on June 20, 2008 and up until April 30, 2010, the management team which was responsible for the day-to-day operations of our Group comprised exclusively of PRC nationals having only a limited understanding of the relevant rules and regulations under Hong Kong laws. Since its incorporation in 2008, Pacific Gain Technologies had retained company secretarial firm to act as company secretary of Pacific Gain Technologies and relied on such company secretarial firm for compliance with various obligations under Hong Kong law. However, throughout the aforementioned period, such company secretarial firm had not advised Pacific Gain Technologies or any of its directors of the requirements under sections 111 and 122 of the Companies Ordinance, or under sections 14 and 51 of the Inland Revenue Ordinance. For the above reasons, the directors of Pacific Gain Technologies during the period were not aware of the requirements under sections 111 and 122 of the Companies Ordinance and sections 14 and 51 of the Inland Revenue Ordinance and their respective non-compliance until May 2010.

---

## BUSINESS

---

### ***Consequences of Non-Compliance***

Non-compliance with sections 111 and 122 of the Companies Ordinance and sections 14 and 51 of the Inland Revenue Ordinance could attract maximum penalties as follows:

<b>Section</b>	<b>Maximum Penalty</b>
Section 111 of the Companies Ordinance	The company and every officer (that is, each director, manager or secretary) of the company who is in default shall be liable to a fine of HK\$50,000.
Section 122 of the Companies Ordinance	Each director of the company shall be liable to a fine of HK\$300,000 and, if the court is of the opinion that such offence was committed willfully, a 12-month imprisonment.
Section 14 of the Inland Revenue Ordinance	The company, without reasonable excuse, shall be liable to additional tax of treble the amount of tax undercharged as a result of non-compliance.
Section 51 of the Inland Revenue Ordinance	The company, without reasonable excuse, shall be liable to a fine of HK\$10,000 and the court may order such person to do the act that he failed to do within a specified time. If in breach of section 51(2), the company shall be liable to a further fine of treble the amount of tax undercharged as a result of its non-compliance.

After consultation with the counsel engaged by Pacific Gain Technologies to apply for court orders in relation to section 111 and section 122 of the Companies Ordinance, our company is advised that, once the court orders are complied with, Pacific Gain Technologies can no longer be held liable under either section 111 or section 122 of the Companies Ordinance in relation to the past non-compliance.

Our Controlling Shareholders have given us an indemnity in respect of, among other things, the above historical non-compliance with the Companies Ordinance and the Inland Revenue Ordinance. Please refer to the section headed “Appendix VI – Statutory and General Information – Other Information – Tax and other indemnities” in this prospectus.

### **Measures Adopted to ensure Future Compliance**

Going forward, our Group has taken various measures to improve the corporate governance and internal control of our Group to ensure compliance with applicable rules and regulations, including but not limited to the following:

- (a) regular training will be provided to all directors and senior management of our Group. In particular, our company has made arrangements with a professional training body in Hong Kong to provide trainings to our directors and senior management. Our company intends for all directors and senior management of our Group to attend training sessions provided by such professional training body with a duration of 2 to 3 hours per session every quarter for the two years immediately after the Listing. After the two-year period, our company shall provide training to our directors and senior management at appropriate times. Depending on the needs of our company from time to time, the

---

## BUSINESS

---

subjects of the trainings may include the overview of legal regulatory framework applicable to a listed company and a director of a listed company, requirements of corporate governance under the Listing Rules, conflict of interests, internal control, and other listing and continuing listing obligations;

- (b) our company has arranged for our then directors to attend a training session on July 27, 2010, the scope of which included corporate governance, anti-money laundering, the relevant requirements under the Companies Ordinance and Inland Revenue Ordinance, and fiduciary duties and duties of skill, care and diligence of a director under the Listing Rules and the laws of Hong Kong;
- (c) our company has appointed Dr. Ma Kwai Yuen, who has over 30 years of professional experience in accounting and financial management, as an independent non-executive director of our company and chairman of our audit committee, and Mr. Hung, Randy King Kuen, who has professional accounting qualifications, as an executive director of our company. Our Group will be able to draw on their experience and expertise with respect to compliance with applicable regulatory and financial reporting requirements. Please see the section headed “Directors and Senior Management” for detailed information on Dr. Ma Kwai Yuen and Mr. Hung, Randy King Kuen;
- (d) our company has appointed Mr. Hung, Randy King Kuen as company secretary of our company, who has experience in handling listed companies compliance matters in Hong Kong since 1999 and will be responsible for the day-to-day compliance matters of our Group;
- (e) our company has engaged a reputable external consulting firm as our internal control advisor to advise us on internal control of our Group and has taken steps to address substantially all areas as suggested by such advisor to be improved;
- (f) Pacific Gain Technologies has appointed a professional company secretarial and advisory firm as its compliance advisor. Its scope of service includes, among other things, advising and reminding Pacific Gain Technologies on compliance of regulatory filings required by the Companies Ordinance, Inland Revenue Ordinance and other regulations relevant to a Hong Kong company from time to time; and
- (g) our company has engaged a compliance advisor, who shall provide advice regarding compliance with the Listing Rules after the Listing. This includes, among other things, assessing the understanding of all new appointees to the board of directors of our company regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer and proposing appropriate steps such as training.

We have fully implemented our internal control advisor’s pre-listing recommendations. We will implement our internal control advisor’s post-listing recommendations after the Listing. Our internal control advisor has conducted a subsequent review after our company’s rectifications (where these relate to the pre-listing recommendations) and our internal control advisor is satisfied that the necessary rectifications have been made.



**OWNED PROPERTIES**

Our headquarters is located in the Economic and Technological Development Zone of Shijiazhuang, Hebei Province, with a total gross floor area of 63,952 square meters. Our production facilities were relocated to these headquarters in August 2008. We hold the land use rights of another parcel of land, where our production facilities were previously located, in the Economic and Technological Development Zone of Shijiazhuang, Hebei Province, with a total gross floor area of 12,487 square meters. We use these premises as training center and office for our financial department. For details of our properties, please refer to the Property Valuation Report in Appendix IV to this prospectus.

**Buildings**

As of the Latest Practicable Date, we owned 25 buildings and 4 office units in China with a total gross floor area of 76,683 square meters, for which we have obtained the Building Ownership Certificates, and we are in the process of applying for the Building Ownership Certificates for two buildings located in the Economic and Technological Development Zone of Shijiazhuang, Hebei Province. The two buildings are currently occupied for guardhouse and academic lecture hall purpose. In addition, we owned four office units with a total gross floor area of 940 square meters in another building as of the Latest Practicable Date.

**Building under Construction**

As of the Latest Practicable Date, we had a building under construction with a planned gross floor area of 13,837 square meters. We had obtained construction work planning permits and construction work commencement permit for this building.

**Land Use Rights**

As of the Latest Practicable Date, we held the land use rights of four parcels of land and apportioned land use rights of four units with a total site area of 202,242 square meters in China. We have obtained the Land Use Rights Certificates to all these land use rights.

**LEASED PROPERTY**

As of the Latest Practicable Date, we also leased an office unit in Hong Kong with a gross floor area of 2,719 square feet for a term of 3 years commencing from April 2010.



---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

### OVERVIEW

Immediately following completion of the Global Offering and the Capitalization Issue, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme, our Controlling Shareholders, Kemy, will directly own 46.85% of the issued share capital of our company and Mr. Zhao Bing and Ms. Shi Shuran will directly own 79% and 17% of the issued share capital of Kemy, respectively.

Mr. Zhao Bing is the chairman and an executive director of our company. Ms. Shi Shuran is the mother of Mr. Zhao Bing. For details of the background of Mr. Zhao Bing, please refer to the information set out in the section headed “Directors and Senior Management – Directors” in this prospectus.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our directors believe that our Group is capable of carrying on our business independently of Kemy, Mr. Zhao Bing, Ms. Shi Shuran and their associates after the Global Offering.

#### Management, operational and administrative independence

Our board of directors consists of eight directors, four of whom are executive directors, one is a non-executive director and the remaining three are independent non-executive directors.

Each of our directors is aware of his fiduciary duties as a director of our company which require, among other things, that he acts for the benefit and in the best interests of our company and would not allow any conflict between his duties as a director and his personal interest.

Two of our directors, Mr. Zhao Bing and Mr. Meng Yuxiao, are also directors of Kemy. Notwithstanding the overlapping directors with Kemy, we believe that any conflict of interests arising from such overlapping directorships has been resolved and our directors can operate independently from Kemy for the following reasons:

- Kemy has agreed that its directors who are not independent of our Group will be required to abstain from voting on decisions concerning our Group if there is any material conflict of interests.
- As set out in further details in “– Clear delineation of businesses” below, Kemy is an investment holding company and does not operate any businesses relating to fiber optic patch cords. Therefore, there is no competition between our business and Kemy’s business.
- Our other directors include two executive directors, one non-executive director and all three of our independent non-executive directors with no overlapping directorships with Kemy. These directors are entirely separate from the board of Kemy and provide substantive balance to the overlapping directorships. Our independent non-executive directors, Mr. Shi Cuiming, Dr. Ma Kwai Yuen and Mr. Lui Pan, have substantive experience in the communications industry (details of which are set out in the section headed “Directors and Senior Management – Directors – Independent Non-Executive

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

Directors” in this prospectus), and provide an appropriate safeguard against any possible failure of our board to properly take into account the interests of minority shareholders as against the interests of Kemy. The Articles of Association provide that a director shall not vote on any resolution in respect of any contract, arrangement or proposal in which such director or any of his associates has a material interest nor shall such director be counted in the quorum for such resolution. Accordingly, in the event that any or both of the overlapping directors with Kemy are under material conflict of interests in respect of any contract, arrangement or proposal, such director(s) shall not vote on the related resolution. In such a case, our company believes that the directors with no overlapping directorships with Kemy should collectively have sufficient industry experience to consider and decide on such a resolution.

- Our Group has its own senior management teams that are mainly responsible for the daily management of our business. The responsibilities of the senior management teams of our Group include overseeing the overall operation and management of our Group, dealing with general administration and human resource, project financing, production, finance management and the daily implementation of the business strategy of our Group. Such separation of duties ensures the independence of the daily management and operations of our Group from those of Kemy. Further details are set out in the section headed “Directors and Senior Management – Senior Management” in this prospectus.

With the above arrangements in place, our directors consider that the overlapping boards will not pose any real conflict of interests between the interests of our Group and the interests of Kemy. In particular, the two overlapping directors will not be faced with any situation where they will have to make decisions under a material conflict of interests between Kemy and our Group. On the other hand, our company will have the benefit of the profile, experience and services of these senior executives in the industry.

### **Clear delineation of businesses**

Kemy was incorporated as a company with limited liability under the laws of the Cayman Islands on September 3, 2007.

Kemy is an investment holding company and Kemy will continue to be an investment holding company after the Global Offering. Save as to its interest in our company, Kemy does not operate any businesses and it does not hold interests in any other entities.

We are one of the largest manufacturers of fiber optic patch cords in China. We produce and sell a comprehensive portfolio of fiber optic patch cord products used in a variety of applications in the communications industry. In addition to fiber optic patch cords, we also produce connection and distribution products and equipment room accessories.

As such, we are of the view that the nature of the business activities carried on by us on the one hand, and those carried on by Kemy on the other, are clearly distinct and that there is a clear delineation between our business and the business of Kemy.

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

### Financial independence

We have an independent financial system and makes financial decisions according to our own business needs. Our directors confirm that as of the Latest Practicable Date, Kemy and its associates had not provided any guarantee or loan to us. We believe we are capable of obtaining financing from independent third parties, if necessary, without reliance on Kemy and its associates. Therefore, we are financially independent from Kemy and its associates.

Having considered the above reasons, our directors are of the view that we are capable of carrying on our business independently from Kemy's (including any associate thereof) after the Listing.

### Non-competition Undertaking from Our Controlling Shareholders

In order to maintain a clear delineation of our respective businesses going forward, Kemy, Mr. Zhao Bing and Ms. Shi Shuran (together, the "**Covenantors**") have jointly and severally entered into the Non-competition Deed. Each of the Covenantors has undertaken to our company that, during the Non-compete Period (as defined below), each of them will not, whether as principal or agent and whether undertaken directly or indirectly (including through any of their associates, subsidiaries, partnerships, joint ventures or other contractual arrangements) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in the business of manufacture or sale of fiber optic patch cords and related products and such other business conducted or carried on by our Group from time to time (the "**Restricted Business**"). The geographical scope of the Non-Competition Deed is limited to the PRC, Hong Kong, Ireland, New Zealand, Canada and any other area in which our Group has business operations from time to time.

Notwithstanding the foregoing, each of the Covenantors may:

- (a) carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business where the opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business has first been offered or made available to our company, and our company, after review and approval by our independent non-executive directors or shareholders as required under relevant laws and regulations, has declined such opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business, provided that the principal terms by which any Covenantor subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business are not more favorable in any material aspect than those offered or made available to our company;
- (b) have interests in shares or other securities (whether or not listed on any stock exchange) of a company conducting any Restricted Business provided that:
  - (i) the Covenantors taken together are not so interested as to be able to exercise or control the exercise of 5% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and
  - (ii) at all times there is another independent shareholder who either alone is, or together with its associates taken together are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than the Covenantors are able, or control the composition of a majority of the board of directors of such company.

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

The “Non-compete Period” stated in the Non-competition Deed refers to the period commencing on the Listing Date and ending on the earlier of:

- (a) the date on which the Covenantors (individually or collectively) and/or any of their associates, individually or collectively, cease to be a controlling shareholder of our company within the meaning of the Listing Rules; and
- (b) the date on which the Shares cease to be listed on the Stock Exchange.

Under the Non-competition Deed, in the event that, during the Non-compete Period, any of the Covenantors intends to dispose of any Restricted Business or any interest in any Restricted Business, the Covenantors shall first offer to our company the right to acquire such business or interest and the Covenantors may only proceed with such disposal to any third party, on terms not more favorable than those offered to our company, following the rejection of such offer by our company.

### Confirmation

Each of our Controlling Shareholders, Kemy, Mr. Zhao Bing and Ms. Shi Shuran, has confirmed to us that, as at the Latest Practicable Date, they and their respective associates did not have any interest in any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with our Group’s business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules. Further, none of our directors is interested in any business apart from our Group’s business, which competes or is likely to compete, either directly or indirectly, with our Group’s business.

### CORPORATE GOVERNANCE MEASURES

Our company has adopted the Code on Corporate Governance Practices (the “**Code**”) in Appendix 14 to the Listing Rules. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. Our company will state in its interim and annual reports whether it has complied with the Code, and will provide details of, and reasons for, any deviations from it in the Corporate Governance Report which will be included in its annual reports. Our company is also required to comply with the Model Code for Securities Transactions by directors of Listed Issuers which provides, among other matters, prohibitions on directors’ dealings in securities and protection of minority shareholders’ rights. Our directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interests between our Group and Kemy (and its associates), and to protect minority shareholders’ rights after the Listing.

Furthermore, following the Listing, our directors will be required to comply with provisions under the Listing Rules and certain matters are required to be reviewed by our independent non-executive directors. Our directors are of the view that the significant proportion of independent non-executive directors comprising our board of directors should enhance our overall corporate governance standards.

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

In addition to the safeguards mentioned above, an annual review will be performed by the independent non-executive directors with regard to the information provided by the Covenantors (the “**Annual Review**”). After the Annual Review, the independent non-executive directors will decide whether to exercise our rights in respect of the compliance with and enforcement of the Non-competition Deed. Our company will disclose all decisions on the matters pertaining to the Annual Review either through the annual reports, or by way of announcements to the public. The Covenantors will provide all information necessary for the Annual Review and the enforcement of the Non-competition Deed, after which they will make an annual declaration on compliance and the manner of compliance with the Non-competition Deed in the annual reports of our company.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

### BOARD OF DIRECTORS

Our board of directors is responsible for and has general powers for the management and conduct of our business.

Mr. Zhang Hongliang was appointed as the sole director of our company on August 7, 2006, the date of incorporation of our company. Mr. Song Zhiping was nominated to our board of directors on June 21, 2007 by Wakee, after Wakee became a shareholder of our company in April 2007. Pursuant to the Subscription and Shareholders Agreement, Cathay also nominated two directors to our board of directors in September 2007. Mr. Zhang Hongliang relinquished his post as a director of our company on February 28, 2008, and the two directors nominated by Cathay resigned from our board on March 8, 2010.

Our board currently consists of eight directors, of whom four are executive directors, one is a non-executive director and the remaining three are independent non-executive directors. The executive directors are appointed for a term not exceeding three years, and our independent non-executive directors are appointed for an initial period of three years. One-third of our directors will be subject to re-election at each annual general meeting and every director must be subject to re-election at an annual general meeting at least once every three years.

### Members of Our Board

The following table presents certain information in respect of our directors.

Name	Age	Position	Date of Appointment
Mr. Zhao Bing (趙兵)	40	Chairman and executive director of our company and Chairman of Sifang Telecom	September 27, 2007
Mr. Meng Yuxiao (孟欲曉)	47	Executive director of our company and Vice General Manager of Sifang Telecom	February 28, 2008
Mr. Deng Xuejun (鄧學軍)	43	Executive director of our company and Vice General Manager of Sifang Telecom	March 16, 2010
Mr. Hung, Randy King Kuen (孔敬權)	45	Executive director, Chief Financial Officer and Company Secretary of our company	May 1, 2010
Mr. Song Zhiping (宋志平)	57	Non-executive director	June 21, 2007
Mr. Shi Cuiming (石萃鳴)	71	Independent non-executive director	June 3, 2011
Dr. Ma Kwai Yuen (馬桂園)	58	Independent non-executive director	June 3, 2011
Mr. Lui Pan (呂品)	56	Independent non-executive director	June 3, 2011

---

## DIRECTORS AND SENIOR MANAGEMENT

---

### Executive Directors

**Mr. Zhao Bing (趙兵)** has been our chairman and executive director since September 27, 2007. Mr. Zhao Bing is primarily responsible for the overall strategic planning and general management of our company. Mr. Zhao Bing became a controlling shareholder and the chairman of Sifang Telecom in 1999 and has served on a number of key positions within our Group, including the general manager, the chief executive officer and the legal representative of Sifang Telecom. Mr. Zhao Bing has over 17 years of experience in the communications industry. Mr. Zhao Bing has considerable experience and expertise in the fields of telecommunications and technology. Prior to joining Sifang Telecom, Mr. Zhao Bing worked at Gaocheng Post and Telecommunications Bureau (藁城市郵電局), a state-owned enterprise in Hebei Province, now known as the Gaocheng Branch of China Unicom, from 1994 to 1998. After Mr. Zhao Bing joined Sifang Telecom in 1999, he has continued to pursue the development of telecommunications technology and to explore business opportunities in this field, including fiber optic patch cords. Mr. Zhao Bing received a bachelor's degree in applied electronic technology from Beijing University of Posts and Telecommunications (北京郵電大學) in 1994. As at the Latest Practicable Date, Mr. Zhao Bing had not been a full time government official of any country.

**Mr. Meng Yuxiao (孟欲曉)** has been our executive director since February 28, 2008. Mr. Meng is in charge of overseas sales, financing and capital operations of our company, and assists in the strategic planning, operations and management of our company. Mr. Meng joined Sifang Telecom in 2002 and held the positions of vice general manager and director since 2002. Prior to joining us, Mr. Meng worked as a deputy director of the Economic and Technical Cooperation Centre of the Development and Reform Commission of Hebei Province (河北省發展和改革委員會經濟技術合作中心) from 1998 to 2002. Mr. Meng has nearly 10 years of experience in overseas sales, financing and management. Mr. Meng received a bachelor's degree in metallurgy material from Hebei University of Science and Technology (河北科技大學) in 1986.

**Mr. Deng Xuejun (鄧學軍)** has been our executive director since March 16, 2010. He joined Sifang Telecom in 2004 and has served as a vice general manager of Sifang Telecom since September 2004. Mr. Deng oversees production, sales and marketing of Sifang Telecom. He has over 10 years of experience in sales and marketing and management. He served as a general manager at Mianhong International Sales Corporation (棉宏國際銷售公司), now known as Shijiazhuang Hongyuan Sales Corporation (石家莊宏源貿易有限公司) from 1996 to 2001. From 1993 to 1996, Mr. Deng served on several positions at Changshan Textile Group (常山紡織集團), including the general manager for business development and the vice general manager for the sales company. Mr. Deng graduated from the department of international commerce at Nankai University (南開大學) in 1999.

**Mr. Hung, Randy King Kuen (孔敬權)** has served as our executive director, chief financial officer and company secretary since May 1, 2010, and is responsible for our corporate finance and investor relations. Prior to joining our company, Mr. Hung served as an executive director of China Shineway Pharmaceutical Group Limited (stock code 2877), a modern Chinese medicines manufacturer listed on the Stock Exchange, from June 2005 to April 2010 and appointed as non-executive director on June 1, 2011. He is currently an independent non-executive director of Zhongyu Gas Holdings Limited (stock code 8070). Mr. Hung also served as an independent non-executive director of ZZNode Holdings Company Limited (stock code 2371), a software developer listed on the Stock Exchange until January 2008 and as an independent non-executive director of Zhongtian International Limited (stock code 2379), a natural gas provider and a software developer listed on the Stock Exchange until April 2011. Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, an executive committee member of the Hong Kong Investor Relations Association and a council member of the Hong Kong Institute of Directors. Mr. Hung obtained an MBA degree from the University of London, a bachelor's degree of



---

## DIRECTORS AND SENIOR MANAGEMENT

---

science in accounting and a certificate in programming and data processing from the University of Southern California. Mr. Hung also completed the program in Programming and Data Processing in the late 1980s<sup>(1)</sup> from the University of Southern California, a certificate in China Accounting, Finance, Taxation and Law<sup>(2)</sup> from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance.

### Non-Executive Director

**Mr. Song Zhiping** (宋志平) has been our non-executive director since June 21, 2007. Mr. Song was nominated by Wakee, one of our shareholders. Mr. Song is also an executive director of Wakee and the chairman of Kunlun Investment Company Ltd. (昆侖投資有限公司). He has nearly 20 years of experience in commercial trading, real estate and investment. Mr. Song graduated from Tianjin University (天津大學) in 1976, studying in radio engineering.

### Independent Non-Executive Directors

**Mr. Shi Cuiming** (石萃鳴) has been our independent non-executive director since June 3, 2011. Mr. Shi currently serves as a senior consultant and had acted as the chairman of the board and executive director of CITIC 1616 Holdings Limited (stock code 1883) from 2004 to 2009, a company listed on the Stock Exchange. He is also an independent non-executive director of China GrenTech Corporation Limited (stock code 4812), a company listed on the NASDAQ Exchange. From 2000 to 2004, he was an executive director and executive vice-president of China Unicom Limited (stock code 0762), a company listed on the Stock Exchange. Mr. Shi was the chairman of the board and the CEO of China Telecom (Hong Kong) Group Limited, now known as China Mobile Limited (stock code 0941) from 1997 to 1999. Both companies are listed on the Stock Exchange and the New York Stock Exchange. He was also an independent non-executive director of TCL Communication Technology Holdings Limited (stock code 2618), a company listed on the Stock Exchange from 2004 to 2011. From 1981 to 1997, Mr. Shi held various positions in the PRC governmental authorities, including the deputy director of the Department of Postal Economic Research, the director of the Finance Bureau of the Ministry of Posts and Telecommunications, the general director of the Department of Operations and Finance and the general director of the Department of Finance. Mr. Shi graduated from the department of management engineering at the Beijing University of Posts and Telecommunications (北京郵電大學) in 1963.

**Dr. Ma Kwai Yuen** (馬桂園) has been our independent non-executive director since June 3, 2011. Dr. Ma has over 30 years of professional experience in accounting, financial management and business consultancy. Dr. Ma is a director and principal consultant of Wellon Consultants Ltd. Dr. Ma also serves as an independent non-executive director at Wang Sing International Holdings Group Limited (stock code 2389, now known as Genvon Group Limited), a houseware tool manufacturing company listed on the Stock Exchange, China Aoyuan Property Group Limited (stock code 3883), a real estate development company listed on the Stock Exchange, and PacMOS Technologies Holdings Limited (stock code 1010), an integrated circuit and semi-conductor part manufacturing company listed on the Stock Exchange. Prior to joining our company, Dr. Ma had been an independent non-executive director of China Shineway Pharmaceutical Group Limited

---

1 This was a 24 credit program for learning various computer business applications, such as LOTUS 123 and WORDS, and programming languages, including COBOL, Prologue and LISP. This certificate program is no longer offered to students.

2 The certificate in China Accounting, Finance, Taxation and Law is a program offered by the School of Continuing and Professional Studies at the Chinese University of Hong Kong. This program covered five core areas: (i) accounting in China; (ii) financial management in China; (iii) economic law in China; (iv) taxation law in China and (v) auditing in China. This program is no longer offered by the Chinese University.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

(stock code 2877), a medicine injection and soft capsule manufacturer listed on the Stock Exchange, from May 2008 to December 2009, and Vision Tech International Holdings Limited (stock code 922), an electronic appliance and metals distributing company listed on the Stock Exchange, from March 2008 to June 2009. Dr. Ma is a fellow member of the Chartered Institute of Management Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Australian Certified Practicing Accountants Australia. Dr. Ma received a master's degree in international corporate and finance law from the University of Wolverhampton in 2009, a graduate certificate in company law, auditing and taxation from the New South Wales Institute of Technology in 1985 and a higher diploma in accounting from Hong Kong Polytechnic University in 1977. Dr. Ma also received a Doctor of Philosophy in Business Administration from Bulacan State University in May 2011.

**Mr. Lui Pan (呂品)** has been our independent non-executive director since June 3, 2011. Mr. Lui is the chief executive officer and a founding member of DVN (Holdings) Limited (stock code 500), a digital TV technology manufacturing company listed on the Stock Exchange. Mr. Lui has approximately 30 years of experience in the high technology industry and the information technology industry and possesses extensive knowledge in developing technologies and formulating business and market strategies. He was appointed as a member of the sub-committee of the China Digital Television Standards Committee and plays a key role in the development of China's digital television standard. Mr. Lui received a doctor of philosophy degree from the Hong Kong Polytechnic University in 2007, a master's degree in electrical engineering and electronics from the Zhejiang University in 1986 and a master's degree in business administration from the Chinese University of Hong Kong in 1997.

Save as disclosed in this prospectus, and to the best knowledge of our company, there is no other information in respect of each of our directors that is required to be disclosed pursuant to Rule 13.51(2) (a) to (v) of the Listing Rules and there is no other material matter relating to our directors that needs to be brought to the attention of investors.

### SENIOR MANAGEMENT

#### Members of our Senior Management

The following table presents certain information in respect of the members of our senior management:

Name	Age	Position	Date of Appointment
Mr. Zhang Yonglu (張永錄) <sup>(1)</sup>	55	Director and general manager of Sifang Telecom	August 17, 2006 and July 1, 2008
Mr. Han Liren (韓立人) <sup>(1)</sup>	46	Vice general manager of Sifang Telecom	July 1, 2008
Mr. Liu Dehui (劉德輝)	53	Vice general manager of Sifang Telecom	May 27, 2009
Mr. Zhang Aimin (張愛民)	36	Chief engineer of Sifang Telecom	December 20, 2006
Mr. Xia Ni (夏霓)	40	Vice president of our company	September 1, 2010

---

(1) Mr. Zhang Yonglu and Mr. Han Liren are also shareholders of Kemy.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

**Mr. Zhang Yonglu (張永錄)** joined Sifang Telecom in 2002 and has served as a director of Sifang Telecom since August 2006 and the general manager of Sifang Telecom since July 2008. He oversees the overall operation and management of Sifang Telecom. Prior to joining Sifang Telecom, he served as a vice chairman of the labor union of Xi'an coal mine of the Mining Bureau of Liaoyuan City, Jilin Province from 1982 to 1989 and as a deputy officer of the Social Security Office of Comprehensive Management of the Liaoyuan Municipality, Jilin Province from 1990 to 1998. He has extensive experience in business operations and management.

**Mr. Han Liren (韓立人)** has served as a vice general manager of Sifang Telecom since July 2008. Mr. Han is in charge of the general administration and human resource department of Sifang Telecom. He has approximately 10 years of experience in administration and human resource management. Prior to joining Sifang Telecom in 2005, from 2003 to 2005, he served as an executive vice general manager of Hebei Enterprises Investment Corporation (河北省企業投資公司). Mr. Han was the chairman and a general manager of Qinhuangdao Zhongxing Electronic Corporation (秦皇島中興電子有限公司) from 2000 to 2003. Mr. Han received a bachelor's degree in engineering from Zhengzhou Textile Institute (鄭州紡織工學院), now known as Zhongyuan College of Technology (中原工學院) in 1984.

**Mr. Liu Dehui (劉德輝)** has served as a vice general manager of Sifang Telecom since May 2009. Mr. Liu is in charge of project financing, and he oversees the office of the general manager of Sifang Telecom. He joined Sifang Telecom in November 2006 and was appointed as vice general manager in May 2009. Mr. Liu possesses over 10 years of management experience. Prior to joining Sifang Telecom, Mr. Liu served as the director of Hebei Province Oceanic Administration (河北省海洋局) from 1995 to 2000. Mr. Liu received a bachelor's degree in engineering from Ordnance Engineering College (軍械工程學院) in China in 1987.

**Mr. Zhang Aimin (張愛民)** has served as the chief engineer of Sifang Telecom since December 2006. Mr. Zhang joined Sifang Telecom in 2006 as the manager of the production department. Mr. Zhang has over 13 years of experience in the communications industry, specializing in the application of passive optical communications products and commercialization of communications products. While working in Sifang Telecom, Mr. Zhang participated in the drafting of The Optical Splitter Box Industry Standard (光纜分纖箱行業標準) initiated by the China Communications Standardization Association (中國通信標準化協會). Prior to joining Sifang Telecom, Mr. Zhang worked as a product and project manager of the communications division of the Haier Group, a China-based household appliance manufacturing company listed on the Shanghai Stock Exchange, from 1998 to 2003 and a technical support engineer at Huawei Technologies, a China-based telecom equipment manufacturing company, from 2003 to 2006. Mr. Zhang received a bachelor's degree in management engineering from Wuhan University of Technology (武漢工業大學) in 1998.

**Mr. Xia Ni (夏霓)** has been our vice president since September 1, 2010. He is primarily responsible for our company's corporate finance. Mr. Xia joined Sifang Telecom in August 2009 and served as the assistant to the chairman of Sifang Telecom. Mr. Xia has approximately 17 years of experience in project investment and initial public offering financing. Prior to joining Sifang Telecom, Mr. Xia worked in several investment banks and investment institutions in China. Mr. Xia received a bachelor's degree majoring in automotive engineering from Shanghai University of Engineering Science (上海工程技術大學) in 1993 and a master's degree in management from Shanghai University of Finance and Economics (上海財經大學) in 1998.

### Company Secretary

**Mr. Hung, Randy King Kuen** has served as our company secretary since May 1, 2010.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our directors receive remuneration in the forms of fees, salaries, allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf.

The directors' remuneration is subject to review by our remuneration committee and the board of directors of our company at the end of each financial year of our company.

The aggregate amount of remuneration (including salaries, allowances, benefits in kind and pension scheme contributions) that was paid to our directors for the years ended December 31, 2008, 2009 and 2010 was RMB225,000, RMB257,000 and RMB1,134,000, respectively.

The aggregate amount of remuneration (including salaries, allowances, benefits in kind and pension scheme contributions) that was paid to our five highest paid individuals of our company, excluding two of our directors who constituted two of the five highest paid individuals, for the years ended December 31, 2008, 2009 and the 2010 was RMB207,000, RMB292,000 and RMB120,000, respectively.

We have not paid any remuneration to our directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2008, 2009 and 2010. Further, none of our directors have waived any remuneration during the same year.

Particulars of the service agreements with our directors are set out in the section headed "Appendix VI – Statutory and General Information – Further information about our directors – Particulars of service contracts" in this prospectus.

### AUDIT COMMITTEE

Our company will establish an audit committee with effect from the Listing with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee will be, among other things, to review and supervise the financial reporting process and internal control systems of our company.

The audit committee will comprise three members, namely, Dr. Ma Kwai Yuen, Messrs. Shi Cuiming and Lui Pan, all of whom are independent non-executive directors. The audit committee will be chaired by Dr. Ma Kwai Yuen.

### REMUNERATION COMMITTEE

Our company will establish a remuneration committee with effect from the Listing. The primary duties of the remuneration committee will be to evaluate and make recommendations to our board regarding the compensation of our executive directors. In addition, the remuneration committee will conduct reviews of the performance, and will determine the compensation structure of our senior management.

The members of the remuneration committee will be Messrs. Zhao Bing, Lui Pan and Shi Cuiming. The remuneration committee will be chaired by Mr. Zhao Bing.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

### CORPORATE GOVERNANCE COMMITTEE

Our company will establish a corporate governance committee with effect from the Listing. The primary duties of the corporate governance committee will be to work closely with our board, our external consulting firm, our compliance advisor and our legal advisors to adopt a compliance program for our Group, and to implement new policies and protocols to oversee conduct of all employees, including directors and senior management.

The members of the corporate governance committee will be Dr. Ma Kwai Yuen, Messrs. Shi Cuiming and Hung, Randy King Kuen. The corporate governance committee will be chaired by Dr. Ma Kwai Yuen.

### COMPLIANCE ADVISOR

Our company has appointed China Merchants Securities (HK) Co., Ltd. as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules to provide advisory services to our company pursuant to the requirements thereunder. China Merchants Securities (HK) Co., Ltd. will, inter alia, advise our company with due care and skill on a timely basis when consulted by our company in the following circumstances:

- before the publication by our company of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under Chapter 14 or 14A of the Listing Rules, is contemplated by our company including share issues and share repurchases;
- where our company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our company deviate from any forecast, estimate, or other information in this prospectus;
- where the Stock Exchange makes an inquiry of our company under Rule 13.10 of the Listing Rules;
- if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in the foregoing paragraphs above; and
- assess the understanding of all new appointees to the board of directors regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent the compliance advisor forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the board and make recommendations to the board regarding appropriate remedial steps such as training.

The term of the appointment will commence on the Listing Date and end on the date on which our company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## SUBSTANTIAL SHAREHOLDERS

So far as we are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or underlying shares of our company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our company:

Name	Nature of Interest (Note 1)	Number of Shares held after the Global Offering	Percentage of shareholding after the Global Offering
Kemy	Beneficial owner	562,125,012	46.85%
Mr. Zhao Bing	Interest in a controlled corporation	562,125,012 (Note 2)	46.85%
Cathay	Beneficial owner	117,499,856	9.79%
Cathay Capital Holdings, L.P.	Interest in a controlled corporation	117,499,856 (Note 3)	9.79%
Cathay Master GP, Ltd.	Interest in a controlled corporation	117,499,856 (Note 3)	9.79%
Wakee	Beneficial owner	99,375,074	8.28%
Song Zhiping	Interest in a controlled corporation	99,375,074 (Note 4)	8.28%

*Notes:*

1. All interests stated are long positions.
2. These Shares are registered in the name of Kemy, the entire issued share capital of which is legally and beneficially owned as to 79% by Mr. Zhao Bing, 17% by Ms. Shi Shuran (mother of Mr. Zhao Bing), 1% by Mr. Zhang Yonglu, 1% by Mr. Deng Xuejun (an executive Director), 1% by Mr. Meng Yuxiao (an executive Director) and 1% by (Mr. Han Liren). Under the SFO, Mr. Zhao Bing is deemed to be interested in all the Shares held by Kemy.
3. These Shares are registered in the name of Cathay, the entire issued share capital of which is owned by Cathay Capital Holdings, L.P., a private equity fund and a limited partnership with direct investment in the PRC. Cathay Capital Holdings, L.P. is managed by its general partner, Cathay Master GP, Ltd. Under the SFO, Cathay Capital Holdings, L.P. and Cathay Master GP, Ltd. are deemed to be interested in the Shares held by Cathay.
4. These Shares are registered in the name of Wakee, the entire issued share capital of share is legally and beneficially owned by Ms. Ou Shujin, the spouse of Mr. Song Zhiping. Under the SFO, Mr. Song Zhiping is deemed to be interested in all the Shares held by Ms. Ou Shujin.

Except as disclosed in the table above, we are not aware of any other person who will, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying shares of our company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our company.



---

## SHARE CAPITAL

---

The authorized share capital of our company immediately before the Global Offering is US\$38,000, divided into 35,000,000 ordinary Shares and 3,000,000 redeemable Series A Preferred Shares, with a nominal value of US\$0.001 per Share.

The authorised and issued share capital of our company immediately after the Global Offering (without taking into account the exercise of the Over-allotment Option) will be as follows:

<b>Number of Shares</b>	<b>Description of Shares</b>	<b>Aggregate nominal value of Shares (US\$)</b>
10,000,000,000	Authorised share capital	10,000,000
1,559,454	Shares in issue at the date of this prospectus	1,559
898,440,546 <sup>(1)</sup>	Shares to be issued pursuant to the Capitalization Issue	898,441
<u>300,000,000</u>	Shares to be issued under the Global Offering	<u>300,000</u>
<u><u>1,200,000,000</u></u>	Total issued share capital	<u><u>1,200,000</u></u>

(1) Includes a total of 106,000,000 Shares offered for sale by the Selling Shareholders.

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our company must maintain the “minimum prescribed percentage” of 25% of our company’s issued share capital in the hands of the public.

### ASSUMPTIONS

The above table takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the exercise of any options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme, and any Shares which may be allotted and issued, or repurchased by our company pursuant to the general mandate to issue new Shares and general mandate to repurchase Shares as described below. If the Over-allotment Option is exercised in full, then 24,900,000 additional Shares will be issued by us, resulting in a total enlarged issued share capital of 1,224,900,000 Shares.

### RANKING

The Offer Shares will rank pari passu in all respects with all Shares now in issue or to be issued as mentioned herein, and will rank in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus.

Except as disclosed in the sections headed “History, Reorganization and Corporate Structure – Group Reorganization – Conversion of Cathay’s Series A Preferred Shares into ordinary shares”, “History, Reorganization and Corporate Structure – Group Reorganization – Performance Guarantee and Options to acquire Shares granted by Kemy to Cathay” and “Appendix VI – Statutory and General Information – Pre-IPO Share Option Scheme” in this prospectus, no share or loan capital of our company or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.



---

## SHARE CAPITAL

---

### GENERAL MANDATE TO ISSUE NEW SHARES

A general mandate has been granted to our directors authorizing them to exercise their powers to allot, issue and deal with Shares or securities convertible into Shares and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued, provided that the aggregate nominal value of the Shares allotted or agreed conditionally or unconditionally to be allotted shall not exceed 20% of the aggregate nominal value of the share capital of our company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme).

This mandate does not apply to situations where our directors allot, issue or deal with the Shares under any rights issue, scrip dividend scheme or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or a part of a dividend on Shares in accordance with the Articles of Association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date the mandate was granted, or pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme or pursuant to the Global Offering or pursuant to a specific authority granted by our shareholders in general meeting, on behalf of our company.

This mandate will expire:

- at the conclusion of our next shareholders' annual general meeting;
- the date by which our next shareholders' general meeting is required by applicable laws and the Articles of Association to be held; or
- such mandate being revoked or varied by ordinary resolutions of our shareholders in a general meeting,

whichever is the earliest.

Particulars of this general mandate are set out in the section headed "Appendix VI – Statutory and General Information" in this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

A general mandate has been granted to our directors authorizing them to exercise all the powers for and on behalf of our company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other approved stock exchange(s) on which the securities of our company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Appendix VI – Statutory and General Information – Repurchase by our company of our Shares" in this prospectus.

---

## SHARE CAPITAL

---

This mandate will expire:

- at the conclusion of our next annual shareholders' general meeting;
- the date by which our next shareholders' general meeting is required by applicable laws and the Articles of Association to be held; or
- such mandate being revoked or varied by ordinary resolutions of our shareholders in a general meeting,

whichever is the earliest.

Particulars of this general mandate are set out in the section headed "Appendix VI – Statutory and General Information – Repurchase by our company of our Shares" in this prospectus.

### **PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME**

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarized in the sections headed "Appendix VI – Statutory and General Information – Pre-IPO Share Option Scheme" and "Appendix VI – Statutory and General Information – Share Option Scheme", respectively.

---

## FINANCIAL INFORMATION

---

***You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated audited financial statements and the accompanying notes thereto included in the Accountants' Report as set forth in Appendix I to this prospectus.***

***Our consolidated financial information as at and for each of the years ended December 31, 2008, 2009 and 2010 was audited by Ernst & Young, certified public accountants in accordance with the IFRS as issued by the International Accounting Standards Board.***

***This discussion contains forward-looking statements that reflect current views of management and involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to, those described under "Risk Factors" and elsewhere in this prospectus.***

### OVERVIEW

We are one of the largest manufacturers of fiber optic patch cords in China. In terms of sales volume in 2010, we were the largest manufacturer of fiber optic patch cords in China according to CCID. We produce and sell a comprehensive portfolio of fiber optic patch cord products used in a variety of applications in the communications industry. In addition to fiber optic patch cords, we also produce connection and distribution products and equipment room accessories.

We generate our revenue primarily from the sales of customized products and solutions to communications network operators in China including telecommunications network operators, broadcast and television communications network operators and specialized communications network operators. Sales of fiber optic patch cords accounted for 84.5%, 95.2% and 93.7% of our total revenue, respectively, in 2008, 2009 and 2010. In the same years, sales of connection and distribution products accounted for 8.8%, 3.6% and 4.9% of our total revenue, respectively, and sales of equipment room accessories accounted for 6.7%, 1.2% and 1.4% of our total revenue, respectively. We expect that sales of fiber optic patch cords will continue to grow and account for a majority of our revenue.

We sell our products in China and to overseas customers in Ireland, New Zealand and Canada during the Track Record Period. Our revenue derived from domestic sales represented 32.3%, 83.7% and 76.6% of our total revenue in 2008, 2009 and 2010, respectively. Our revenue derived from overseas sales represented 67.7%, 16.3% and 23.4% of our total revenue in the same years, respectively. Due to the rapid growth of the Chinese communications industry, we expect that our domestic sales will continue to constitute a majority of our total sales in the foreseeable future. We have established strong and long-standing business relationships with our major customers, especially three of the major telecommunications operators in China. Our direct sales to these three customers collectively accounted for 52.8% of our revenue for the year ended December 31, 2010. Sales to our top five customers collectively accounted for 78.2%, 63.2% and 76.2% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively.

---

## FINANCIAL INFORMATION

---

We have grown significantly since our inception in 1998. Our annual production capacity increased from 1.0 million sets of fiber optic patch cords as of October 2007 to 9.0 million sets of fiber optic patch cords at the end of 2010. Our production facility in Shijiazhuang, Hebei Province has six production lines and we plan to build two additional production lines with an aggregate capacity of three million sets of fiber optic patch cords. We sold 1.7 million, 9.6 million and 10.8 million sets of fiber optic patch cords in 2008, 2009 and 2010, respectively, representing a CAGR of 152.1% from 2008 to 2010. Our revenue for 2008, 2009 and 2010 was RMB334.5 million, RMB645.7 million and RMB838.1 million, respectively, representing a CAGR of 58.3% from 2008 to 2010 and our profit for 2008, 2009 and 2010 was RMB86.9 million, RMB139.1 million and RMB181.9 million, respectively, representing a CAGR of 44.7% from 2008 to 2010.

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS

During the Track Record Period, our business, financial position and results of operations were significantly affected by a number of factors, many of which may not be within our control. Significant factors include, among others, the following:

#### Economic Cycles and Industry Conditions

We derive our revenue from sales of fiber optic patch cords, connection and distribution products and equipment room accessories in China and in the overseas market. The communications equipment industry in which we operate is sensitive to macroeconomic trends. The economic growth of China has been accompanied by the rapid growth in the communications equipment industry in general and the fiber optic patch cord sector in particular. According to CCID, driven by the significant expansion of the fiber optic networks, the size of the fiber optic patch cord market in China increased from RMB260.0 million in 1998 to RMB2.8 billion in 2010. In line with the growth of the communications equipment industry in China, our domestic sales increased from RMB107.9 million in 2008 to RMB642.2 million in 2010. Meanwhile, the global credit financial system has experienced significant difficulties and disruption since the second half of 2008, resulting in a widening global economic crisis. The global economic slowdown adversely affected the capital expenditure of the network providers in our overseas market. If the global economy continues to grow at a slower rate than expected, if at all, or experience a recession, the growth in demand for communications infrastructure products will also continue to slow down or decrease. As a result, our overseas sales, business, financial condition and results of operations would be adversely affected.

In addition, our business is sensitive to the conditions of the communications industry and the spending cycle of the communications network operators. The telecommunications industry in China has experienced, and may continue to experience, significant consolidation. Recent examples of significant consolidation in the telecommunications industry in China include China Telecom's acquisition of the CDMA network from China Unicom through a series of transactions commencing from June 2, 2008, and China Netcom's merger with and into China Unicom on October 15, 2008. Consolidation in the telecommunications industry has a significant effect on the purchasing decisions by merged companies, including their purchase method, preference or the specifications of the products they desire. Any delays or reductions in telecommunications equipment purchases, especially those from our major customers, could have a material adverse effect on demand for our products and our profitability. The spending cycle of the communications network operators may also vary from time to time, subject to their changing development plans and strategies. If purchases of our products by communications network operators, especially those by the major operators, decline due to a decrease in their spending on equipment procurement, our business, financial condition and results of operations would be adversely affected.

---

## FINANCIAL INFORMATION

---

### Market Demand

One of the primary factors impacting our revenue is the sales volume of our principal products, which is driven in part by market demand for our products. Market demand in turn depends on the development of the communications industry.

We sold 1.7 million, 9.6 million and 10.8 million sets of fiber optic patch cords in 2008, 2009 and 2010, respectively, representing a CAGR of 152.1% from 2008 to 2010. We believe the market demand for fiber optic patch cords has increased over the years due to development of the communications equipment industry, driven by many factors including the expansion of the 3G networks, the adoption of the FTTx technology and the upgrade of the broadcast and television network.

We intend to continue to target attractive commercial opportunities in the Chinese communications network industry, with a focus on fiber optic patch cord products. The communications network industry market in China is characterized by rapid technological change and evolving industry standards and trends. In line with the development of the FTTx technology and the PON technology, we have been focusing our research and development efforts on the development of small-sized and high-concentration fiber optic patch cords, which represent higher profit margins. We believe we will benefit from the commercial opportunities brought by the penetration of fiber optic network system in urban areas and the expansion of fiber optic infrastructure into rural areas promulgated by the PRC government as well as the integration of three networks (the broadcast and television networks, the telecommunications networks and the Internet) in China. We also expect the demand for our products to grow as our key customers continue to expand and upgrade their networks. For instance, according to CCID, three of the major telecommunications network operators invested over RMB146 billion on the 3G network development and migration in 2010.

### Domestic and Overseas Sales

We derive revenues from our sales of fiber optic patch cords, connection and distribution products and equipment room accessories in China and our sales of fiber optic patch cords to overseas customers in Ireland, New Zealand and Canada. Our revenue derived from the domestic sales represented 32.3%, 83.7% and 76.6% of our total revenue in 2008, 2009 and 2010, respectively. Our revenue derived from the overseas sales represented 67.7%, 16.3% and 23.4% of our total revenue in the same years, respectively.

Since the market prices of our products in the overseas markets are typically higher than those in the PRC domestic market, our gross profit margin for our overseas sales is higher than our gross profit margin for our domestic sales. Our gross profit margin for our overseas sales was 59.6%, 52.8% and 53.9% in 2008, 2009 and 2010, respectively, while our gross profit margin for our domestic sales was 22.5%, 26.8% and 25.3% in the same years, respectively.

In 2009, our domestic sales increased due primarily to the growing demand for our products, driven by the rapid development of the Chinese communications industry in general and the expansion of the 3G networks in particular. In the same period, our overseas sales decreased as we refocused our sales and marketing efforts on the domestic market when our overseas market was adversely affected by the global economic slowdown. As a result, our domestic sales, representing a lower gross profit margin compared to our overseas sales, as a percentage of our total revenue increased to 83.7% in 2009 from 32.3% in 2008 and as a result, our gross profit margin decreased to 31.0% in 2009 from 47.6% in 2008. In 2010, our domestic sales increased by 18.8% from 2009, in line with the continued growth of our domestic market. Meanwhile, as our

---

## FINANCIAL INFORMATION

---

overseas market gradually recovered from the global economic slowdown in 2010, our overseas sales, representing higher gross profit margin compared to our domestic sales, as a percentage of our total revenue increased from 16.3% in 2009 to 23.4% in 2010. As a result, our gross profit margin slightly increased from 31.0% in 2009 to 32.0% in 2010. Due to the rapid growth of the Chinese communications industry, we expect that our domestic sales will continue to constitute a majority of our total sales in the foreseeable future.

### **Fiber Optic Product Prices**

The selling prices of our fiber optic patch cord products sold in the domestic market vary upon different technical specifications of the products. Products of higher precision, higher concentration or other higher technical standards tend to have higher prices compared to other products. Due to our continuous efforts in introducing more technically advanced products to our customers, the average selling price of our fiber optic patch cords sold in the domestic market was RMB47.6, RMB54.6 and RMB57.6 per unit in 2008, 2009 and 2010, respectively. The selling prices of our fiber optic patch cord products sold in the overseas market are determined based on our negotiations with our overseas distributors, who, in our understanding, use the prevailing overseas market prices as a basis in the price negotiations. The average selling price of our fiber optic patch cords sold in the overseas market decreased from 2008 to the end of 2009, primarily to the decrease in demand for communications equipment caused by the global financial downturn, and remained relatively stable from 2009 to 2010. The average selling price of our fiber optic patch cords sold in the overseas market was RMB410.6, RMB375.6 and RMB369.7 per unit in 2008, 2009 and 2010, respectively.

### **Our Ability to Attract and Retain Major Customers**

We derive a substantial portion of our revenue from a limited number of major customers. Sales to our top five customers collectively accounted for 78.2%, 63.2% and 76.2% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively. In particular, our financial results to a large extent depend on our sales to three key telecommunications network operators in China. Our direct sales to these three customers collectively accounted for 52.8% of our revenue for the year ended December 31, 2010. In January 2001, our FC fiber optic patch cords were granted the Network Access License for Telecommunications Equipment by the Ministry of Information Industry of the PRC, the predecessor of MIIT, and we began to supply fiber optic patch cords to one of the major telecommunications network operators in China in 2001. The status of qualified suppliers is subject to annual inspections. Since 2006, these three network operators have gradually implemented a centralized procurement policy, under which the national offices of these operators determine the qualification of suppliers based on the recommendations of their provincial-level subsidiaries and affiliates. For a specific project, suppliers are selected through a bidding process. Once we are selected for a project, we usually enter into a sales contract with the local subsidiary or affiliate of the relevant network operator. We believe that the centralized procurement policy benefits established suppliers like us, although it potentially increases the bargaining power of three of the telecommunications network operators.

We believe that the key growth driver of our business lies in the continuous demand from our major customers. Therefore, our results of operation depend on our ability to successfully retain our existing major customers and our ability to attract new customers and to broaden our customer base. Any failure to maintain established relationships with our major customers, due to unsuccessful sales and marketing efforts, lack of suitable products, unsatisfactory customer support and after-sale services or any other reason, could result in a loss of a key customer or reduced order from a key customer. We plan to enhance the relationships with our existing customers by continuing to offer comprehensive, high-quality and customized products that meet



---

## FINANCIAL INFORMATION

---

their technical and quality requirements. Meanwhile, we plan to leverage our successful track record to attract new customers in China among the broadcast and television communications network operators and other communications network operators, such as railway and highway network operators.

### Market Competition

The fiber optic patch cord industry in which we operate is intensely competitive, relatively concentrated, and according to CCID, characterized by competition with differentiated products. The fiber optic patch cord market in China is dominated by a few major players, with a large number of manufacturers competing for the remaining small portion of the market. Our principal competitors are fiber optic patch cord manufacturers in China, including Sunsea, Centuryman, Longxing and Taiping. We face competition in the overseas market from international telecommunications equipment manufacturers, including Amphenol, LEMO, Tyco, 3M and ADC. We primarily compete on the basis of production capacity, speed of delivery, product quality and technical capabilities, design customization, customer services, economies of scale and reputation. Our contracts with some of our key customers, including three of the major telecommunications network operators in China, are awarded through bidding processes. The pricing terms are largely determined by our key customers during such bidding process due to the competitive nature of the communications industry. The success of our business and results of operations to a large extent depend upon our ability to differentiate ourselves from our competitors in material aspects, adapt to changing market conditions and compete successfully with existing or new competitors during the bidding process.

### Costs and Supply of Raw Materials

Costs of raw materials accounted for 90.7%, 94.0% and 94.6% of our production cost for the years ended December 31, 2008 and 2009 and 2010, respectively. The principal raw materials for producing fiber optic patch cords are soft optical cables and ceramic ferrules. We usually first use the soft optical cables produced in-house to meet the production requirements before we use those purchased from our qualified suppliers. We purchase other raw materials from our qualified suppliers for our domestic orders in China. The average cost of sales was RMB36.0, RMB39.9 and RMB42.9 in 2008, 2009 and 2010, respectively, for each unit of our fiber optic patch cord products sold in the domestic market. The average cost of sales for our fiber optic patch cord products sold in the domestic market increased from 2008 to 2010 because we purchased more raw materials of higher quality, which tend to have higher prices, to produce fiber optic patch cords of higher quality. We use the soft optical cables produced in-house for orders of our domestic sales. For our international orders, we typically sourced imported soft optical cables and ceramic ferrules in order to meet higher technical specifications required by our overseas customers. The average cost of sales was RMB166.1, RMB177.3 and RMB170.5 in 2008, 2009 and 2010, respectively, for each unit of our fiber optic patch cord products sold in the overseas market. The average cost of sales for our fiber optic patch cord products sold in the overseas market increased from 2008 to 2009 because the overseas market prices of soft optical cables increased during that period. The average cost of sales for our fiber optic patch cords products sold in the overseas market decreased from 2009 to 2010 because the depreciation of the U.S. dollar against the Renminbi in 2010.

We currently have one soft optical cable production line in Shijiazhuang, Hebei Province with an aggregate annual capacity of producing 13,000 kilometers of soft optical cables. We plan to build nine new production lines that, upon the full commencement of operations expected in 2011, will increase our aggregate annual production capacity to 130,000 kilometers of soft optical cables and partially meet our internal soft optical cable component needs for the production of our fiber



---

## FINANCIAL INFORMATION

---

optic patch cords. If presented with right opportunities, we will consider securing supply of ceramic ferrules through selective acquisitions and strategic alliances. We believe in-house production of soft optical cables will enable us to effectively control our costs of production and improve our profit margin.

### **BASIS OF PREPARATION**

Our financial information has been prepared in accordance with the IFRS throughout the Track Record Period, which comprises standards and interpretations approved by the International Accounting Standards Board, the International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

Our financial information has been prepared on a historical cost convention, except for convertible preference shares, which have been measured at fair value.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our principal accounting policies are set forth in Note 3 of Section II of the Accountants' Report attached as Appendix I to this prospectus. IFRS requires that we adopt accounting policies and make estimates that our directors believe are most appropriate under the circumstances for the purposes of giving a true and fair view of our results and financial position. The preparation of our financial information requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures of contingent assets and liabilities. We believe the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas may differ from our estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including our management's view on trends in our industry and expectations of future events that are believed to be reasonable under the circumstances. Our company has not experienced material discrepancies between accounting estimates and actual figures in the past. Such estimates have not been changed significantly and will only be adjusted reasonably to account for market developments or changes. We have identified below the accounting policies that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

#### **Revenue Recognition**

We recognize revenue when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, i.e., when goods are delivered and the title has passed according to the sales contracts, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

---

## FINANCIAL INFORMATION

---

### **Depreciation of Property, Plant and Equipment**

The amount of depreciation expenses to be recorded on an asset is affected by a number of estimates made by our management, such as estimated useful lives and residual values. If different judgments are used, material differences may result in the amount and timing of the depreciation charges related to the asset.

We calculate depreciation of the item of property, plant and equipment on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Our management estimates the useful lives, residual values and related depreciation charges for property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of each item of property, plant and equipment of a similar nature and function. They could change significantly as a result of technical innovations and actions of our competitors. The assumptions used in the determination of useful lives of property, plant and equipment are reviewed periodically. Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

### **Impairment of Property, Plant and Equipment**

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, in accordance with the accounting policy as disclosed in Note 3 of section II to the Accountants' Report attached as Appendix I to this prospectus. The recoverable amount of these assets or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value-in-use. Estimating the value-in-use requires our management to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

### **Net Realizable Value of Inventories**

Our management makes judgments on the net realizable value of inventories based on historical experience and various other assumptions that they believe to be reasonable under the circumstances.

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to be incurred through completion and disposal. These estimates are based on current market conditions and the historical experience of selling products of a similar nature. They may change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Our management reassesses these estimates on each reporting date.

### **Impairment of Goodwill**

Our management determines whether goodwill is impaired at least on an annual basis. This determination requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires our management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The estimation of the expected future cash flows from each cash-generating unit may change significantly should the cash-generating unit fail to sustain the estimated growth.

---

## FINANCIAL INFORMATION

---

### Impairment of Receivables

Impairment of receivables is calculated based on an assessment of the recoverability of receivables. The calculation of impairment of receivables involves the use of estimates and judgments. An estimate for doubtful debt is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence based on available current and historical information to evaluate the impairment. Bad debts are written off as they are incurred. Where the actual outcome or future expectations differ from the original estimates, such difference will affect the carrying value of receivables and thus, the impairment loss in the period in which the estimate is changed.

### Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

#### *Current tax*

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly are exempted from payment of Cayman Islands income tax.

No provision for Hong Kong profits tax has been made as we had no taxable profits derived from or earned in Hong Kong during the Track Record Period.

Our PRC operating subsidiary is subject to PRC enterprise income tax. As matters relating to PRC enterprise income tax are not usually confirmed by the relevant local tax authorities at the time when the financial statements are prepared, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of PRC enterprise income tax to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expenses and tax provisions in the period in which the differences realize.

#### *Deferred tax*

Deferred tax is provided, using the liability method, on all temporary differences at the statement of comprehensive income date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. As a result, the amount of deferred tax recorded on the statement of financial position depends on management's estimates.

#### (i) Deferred tax assets

We recognize deferred tax assets for all deductible temporary differences by carrying forward the unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except (i) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized. The amount of such assets is measured at the rates that are expected to apply when the asset is realized, based on tax rates and tax laws that have been enacted or substantially enacted as of the statement of financial position date. We review the carrying amount of deferred tax assets at each

---

## FINANCIAL INFORMATION

---

statement of financial position date and reduce such amount to the extent that it is no longer probable (i.e., less than a 50% chance) that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(ii) Deferred tax liabilities

We recognize deferred tax liabilities for all taxable temporary differences, except (i) where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (ii) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### Convertible Preference Shares

Our Series A Preferred Shares remeasured to fair value through profit or loss at subsequent reporting periods. We engaged an independent appraiser to assist in determining the fair value of these Series A Preferred Shares. The determination of fair value was made after consideration of number of factors that are subject to uncertainty, including:

- our Group's financial and operating results;
- the global economic outlook in general;
- the specific economic and competitive factors affecting our Group's business and our Group's business plan and prospects;
- business risks that our Group faces; and
- market yields and return volatility of comparable preference shares.

## FINANCIAL INFORMATION

### KEY STATEMENTS OF COMPREHENSIVE INCOME ITEMS

#### Revenue

We derive our revenue from sales of fiber optic patch cords, connection and distribution products and equipment room accessories. Sales of fiber optic patch cords have historically constituted, and are expected to continue to constitute, a majority of our revenue. We expect sales of connection and distribution products and equipment room accessories to increase in absolute amounts in the future as we increase our steel plate processing capacity. The following table sets forth the sales of our different products in absolute amounts and as percentages of our total revenue for the years indicated:

	Year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands except percentages)</i>					
Fiber optic patch cords	282,674	84.5%	614,969	95.2%	785,312	93.7%
Connection and distribution products	29,446	8.8%	23,298	3.6%	41,344	4.9%
Equipment room accessories	22,367	6.7%	7,383	1.2%	11,482	1.4%
<b>Total</b>	<b><u>334,487</u></b>	<b><u>100.0%</u></b>	<b><u>645,650</u></b>	<b><u>100.0%</u></b>	<b><u>838,138</u></b>	<b><u>100.0%</u></b>

We sell our products in China and to overseas customers in Ireland, New Zealand and Canada. The following table sets forth our domestic and overseas sales, both in absolute amounts and as percentages of our total revenue for the years indicated:

	Year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands except percentages)</i>					
Domestic sales	107,938	32.3%	540,483	83.7%	642,196	76.6%
Overseas sales						
Ireland	64,731	19.4%	86,006	13.3%	81,334	9.7%
New Zealand	105,588	31.6%	9,768	1.5%	114,608	13.7%
Canada	56,230	16.7%	9,393	1.5%	—	—
	<u>226,549</u>	<u>67.7%</u>	<u>105,167</u>	<u>16.3%</u>	<u>195,942</u>	<u>23.4%</u>
<b>Total</b>	<b><u>334,487</u></b>	<b><u>100.0%</u></b>	<b><u>645,650</u></b>	<b><u>100.0%</u></b>	<b><u>838,138</u></b>	<b><u>100.0%</u></b>

## FINANCIAL INFORMATION

We derive a substantial portion of our revenue from a limited number of major customers. Sales to our top five customers collectively accounted for 78.2%, 63.2% and 76.2% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively. In particular, our financial results to a large extent depend on our sales to three of the key telecommunications network operators in China. Our direct sales to these three customers collectively accounted for 52.8% of our revenue for the year ended December 31, 2010. In each of 2008 and 2009, there were three customers that contributed 10% or more of our total net revenue. In 2010, there were four customers that contributed 10% or more of our total net revenue. Sales to our largest customer accounted for 29.7% of our total revenue in 2010.

### Cost of Sales

Our cost of sales includes cost of raw materials, depreciation, labor costs, power and utilities and inventory movement. For the years ended December 31, 2008, 2009 and 2010, our cost of sales were RMB175.3 million, RMB445.3 million and RMB570.2 million, respectively, representing 52.4%, 69.0% and 68.0%, respectively, of our revenue for the corresponding years. The following table sets forth different components of our production costs both in absolute amounts and as percentages of our total production costs and reconciliation of our total production costs to cost of sales for the years indicated:

	Year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands except percentages)</i>					
Raw materials	150,892	90.7%	420,576	94.0%	538,699	94.6%
Depreciation	12,451	7.5%	23,143	5.2%	27,291	4.8%
Labor costs	2,227	1.3%	2,363	0.5%	2,183	0.4%
Power and Utilities	105	0.1%	192	0.1%	450	0.1%
Others	633	0.4%	992	0.2%	390	0.1%
<b>Total production costs</b>	<b>166,308</b>	<b>100.0%</b>	<b>447,266</b>	<b>100.0%</b>	<b>569,013</b>	<b>100.0%</b>
Inventory movement <sup>(1)</sup>	9,003		(1,944)		1,161	
<b>Total cost of sales</b>	<b>175,311</b>		<b>445,322</b>		<b>570,174</b>	

(1) Inventory movement means finished goods as of the beginning of the year less finished goods at the end of the year.

We did not have any inventory obsolescence during the years ended December 31, 2008, 2009 and 2010. We made no provision of inventory obsolescence during the Track Record Period because primarily all of our inventories as of the end of each reporting period had been fully sold or used subsequently.

### Gross Profit

Our gross profit was RMB159.2 million, RMB200.3 million and RMB268.0 million during the years ended December 31, 2008, 2009 and 2010, respectively. Our gross profit margin was 47.6%, 31.0% and 32.0% in the corresponding years, respectively.

## FINANCIAL INFORMATION

The following table sets forth our gross profit with respect to domestic sales and overseas sales both in absolute amounts and as percentages of our revenue for the years indicated.

	Year ended December 31,					
	2008		2009		2010	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>(RMB in thousands)</i>	<i>(%)</i>	<i>(RMB in thousands)</i>	<i>(%)</i>	<i>(RMB in thousands)</i>	<i>(%)</i>
Domestic sales	24,265	22.5%	144,816	26.8%	162,368	25.3%
Overseas sales	134,911	59.6%	55,512	52.8%	105,596	53.9%

The decrease in our gross profit margin from 2008 to 2009 was due to our domestic sales, representing lower gross profit margins compared to overseas sales, accounted for an increasing percentage of our total revenue from 32.3% in 2008 to 83.7% in 2009, as we refocused our sales and marketing efforts on the domestic market when our overseas market was adversely affected by the global economic slow down.

Our gross profit margin slightly increased from 31.0% in 2009 to 32.0% in 2010 because our overseas sales, representing higher profit margins compared to domestic sales, accounted for an increasing percentage of our total revenue.

The following table sets forth the average selling prices and sales volume of our fiber optic patch cords for the years indicated:

	Year ended December 31,		
	2008	2009	2010
Average selling price ( <i>RMB</i> )	163	64	73
Sales volume ( <i>set</i> )	1,731,839	9,614,060	10,757,334

The increase in the sales volume of our fiber optic patch cords from 2008 to 2009 was due primarily to the significant increase of our domestic sales during the same period. The average selling price of our fiber optic patch cords decreased from 2008 to 2009 because our overseas sales, which had higher selling price compared with our domestic sales, were adversely affected by the global economic slow down and accounted for a decreasing percentage of our total revenue from 2008 to 2009.

The increase in the sales volume of our fiber optic patch cords from 2009 to 2010 was due primarily to (i) an increase of 0.9 million sets of fiber optic patch cords in our domestic sales mainly attributable to the increasing demand from the broadcast and television communications network operators in China and (ii) an increase of 0.3 million sets of fiber optic patch cords in our overseas sales as the result of the increase in market demand driven by economic recovery in the overseas market. The average selling price of our fiber optic patch cords increased from 2009 to 2010 because our overseas sales, which had higher selling price compared with our domestic sales, increased and accounted for an increasing percentage of our total revenue from 2009 to 2010. However, the average selling price of our fiber optic patch cords in 2010 is still lower than that in 2008 because revenue derived from our overseas sales, which had significant higher average selling price compared with our domestic sales, accounted for 67.7% of our total revenue in 2008 and 23.4% of our total revenue in 2010.



## FINANCIAL INFORMATION

The following table sets forth the gross profit and gross profit margin with respect to our three major products for the years indicated:

	Year ended December 31,					
	2008		2009		2010	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>(RMB in thousands)</i>	<i>(%)</i>	<i>(RMB in thousands)</i>	<i>(%)</i>	<i>(RMB in thousands)</i>	<i>(%)</i>
Fiber optic patch cords Connection and distribution products	148,529	52.5%	192,580	31.3%	256,690	32.7%
Equipment room accessories	5,937	20.2%	5,237	22.5%	9,129	22.1%
	4,710	21.1%	2,511	34.0%	2,145	18.7%

### Other Income

Our other income primarily consists of bank interest income and subsidy income from the PRC government. We recognize some of the government grants as deferred income and amortize them over a period of time. As a new high technology enterprise, we recognized government grants of RMB0.8 million, RMB0.8 million and RMB1.5 million in 2008, 2009 and 2010, respectively, for purchases of production equipment.

### Selling and Distribution Costs

Our selling and distribution costs primarily consist of overseas marketing fees, transportation fees in connection with our sales, compensation expenses of our sales personnel, entertainment expenses, advertisement expenses and other expenses relating to our selling and distribution activities. Our selling and distribution costs decreased from 2008 to 2009, primarily because we did not incur any overseas marketing fees in 2009 as we focused our sales and marketing efforts on the domestic market. The decrease in the overseas marketing fees was partially offset by the increase in the transportation fees from 2008 to 2009 due primarily to our increased domestic selling efforts. Our selling and distribution costs increased from 2009 to 2010, primarily attributable to the increases in the advertisement fee and the transportation fee we incurred in 2010.

### Administrative Expenses

Our administrative expenses primarily consist of wages and salaries paid to our management and administrative personnel, professional fees, depreciation of property, plant and equipment, research and development costs, various taxes and other administrative expenses. Our administrative expenses increased by RMB11.4 million, or 76.4%, from 2008 to 2009, primarily as a result of an increase in our professional fees and wages and salaries. Our administrative expenses increased by RMB7.8 million, or 30.0%, from 2009 to 2010 as a result of an increase of RMB7.2 million in professional fees in connection with the preparation of our initial public offering.

### Other Operating Expenses

Our other operating expenses include donations, indemnification expenses, bank charges and loss on disposal of items of property, plant and equipment.

---

## FINANCIAL INFORMATION

---

### Finance Costs

Our finance costs primarily consist of interest expenses relating to our bank loans, bank loan guarantee expenses and losses in connection with foreign exchanges. Our finance costs increased from 2008 to 2010 primarily as a result of an increase in our interest expenses, as we obtained more bank loans to meet our increasing working capital requirement in line with the expansion of our production capacity.

### Income Tax Expenses

Income tax expenses consist of provision for current and deferred income tax expenses. Overall, our effective tax rate for the years ended December 31, 2008, 2009 and 2010 was nil, 12.7% and 14.2%, respectively. The nil effective tax rates for the year ended December 31, 2008 was due to the tax exemption enjoyed by Sifang Telecom in 2008. For the year ended December 31, 2009, the effective tax rate of 12.7% compared to nil in 2008 was primarily due to the change in the PRC income tax preferential treatment enjoyed by Sifang Telecom from a tax exemption in 2008 to a 50% tax reduction in 2009. For the year ended December 31, 2010, the effective tax rate was 14.2% compared to 12.7% in 2009. This was primarily due to the provision of a deferred tax liability of RMB2.5 million incurred in connection with a 10% withholding tax on the distributable profit of Sifang Telecom for year ended December 31, 2010.

#### *The Cayman Islands and Hong Kong*

We are a tax exempt company incorporated in the Cayman Islands. Pacific Gain Technologies, our wholly owned subsidiary incorporated in Hong Kong, is subject to Hong Kong corporate income tax of 16.5% on the estimated assessable profits arising in Hong Kong. We did not record any income tax expenses for Pacific Gain Technologies as it had no taxable income during the years ended December 31, 2008, 2009 and 2010. Dividend payments are not subject to withholding tax in the Cayman Islands.

#### *PRC*

##### Enterprise Income Tax

The provision for PRC income tax is based on the income tax rate applicable to our PRC operating subsidiary, Sifang Telecom. The applicable income tax rate is determined in accordance with the relevant PRC income tax rules and regulations based on taxable income determined under the PRC GAAP during the Track Record Period.

Our wholly owned subsidiary, Sifang Telecom, is incorporated in the PRC and therefore is subject to PRC enterprise income tax, or EIT, on its taxable income as reported in its PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The new EIT law imposes a uniform EIT rate of 25% on all domestic enterprises and foreign invested enterprises unless they qualify under certain exceptions. Under the new EIT law, enterprises that were established and already enjoyed preferential tax treatments of two-year tax exemption and three-year tax reduction of 50% before March 16, 2007 will continue to enjoy them until the expiration of such term. Sifang Telecom, as a foreign-invested production enterprise established before March 16, 2007, was entitled to full exemption of EIT for the first two years and a 50% reduction in EIT for the following three years, commencing from January 2007.

##### Profit for the Year and Net Profit Margin

For the years ended December 31, 2008, 2009 and 2010, our net profit was RMB86.9 million, RMB139.1 million and RMB181.9 million, respectively. Our net profit margin was 26.0%, 21.5% and

## FINANCIAL INFORMATION

21.7%, respectively, and our adjusted net profit margin, which is calculated by dividing adjusted net profit by total revenue, was 37.5%, 21.5% and 21.7%, respectively, for the corresponding years. The adjusted net profit is calculated by adding back the fair value losses on convertible preference shares during a period, which were regarded as non-operational items, to the profit for such period.

### RESULTS OF OPERATIONS

#### Consolidated statements of comprehensive income

The following table sets forth our consolidated statements of comprehensive income for the years indicated in absolute amounts and as a percentage of revenue as derived from the Accountants' Report attached as Appendix I to this prospectus.

	Year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
<b>Revenue</b>	334,487	100.0%	645,650	100.0%	838,138	100.0%
Cost of sales	(175,311)	(52.4)%	(445,322)	(69.0)%	(570,174)	(68.0)%
<b>Gross profit</b>	159,176	47.6%	200,328	31.0%	267,964	32.0%
Other income	1,140	0.3%	1,447	0.2%	1,806	0.2%
Fair value losses on convertible preference shares	(38,488)	(11.5)%	-	-	-	-
Selling and distribution costs	(12,849)	(3.8)%	(5,077)	(0.7)%	(7,904)	(0.9)%
Administrative expenses	(14,888)	(4.5)%	(26,258)	(4.1)%	(34,098)	(4.1)%
Other operating expenses	(266)	(0.08)%	(91)	(0.01)%	(56)	(0.007)%
Finance costs	(6,945)	(2.1)%	(10,967)	(1.7)%	(15,851)	(1.9)%
<b>Profit before tax</b>	86,880	26.0%	159,382	24.7%	211,861	25.3%
Income tax expense	-	-	(20,299)	(3.2)%	(29,990)	(3.6)%
<b>Profit for the year</b>	86,880	26.0%	139,083	21.5%	181,871	21.7%
<b>Other comprehensive income:</b>						
Foreign currency translation	5,761	-	(162)	-	(1,355)	-
Total comprehensive income for the year attributable to owners of our company	92,641	-	138,921	-	180,516	-
Earnings per share attributable to owners of our company:						
Basic	RMB69.92	-	RMB89.19	-	RMB116.62	-
Diluted	RMB69.92	-	RMB89.19	-	RMB116.62	-

---

## FINANCIAL INFORMATION

---

### Year ended December 31, 2010 compared to year ended December 31, 2009

**Revenue.** Our revenue increased by RMB192.4 million, or 29.8%, from RMB645.7 million in 2009 to RMB838.1 million in 2010. From 2009 to 2010, sales of our fiber optic patch cords increased by RMB170.3 million, or 27.7%, sales of our connection and distribution products increased by RMB18.0 million, or 77.5%, and sales of our equipment room accessories increased by RMB4.1 million, or 55.5%. Our domestic sales increased by RMB101.7 million, or 18.8%, from RMB540.5 million in 2009 to RMB642.2 million in 2010 and our overseas sales increased by RMB90.7 million, or 86.3%, from RMB105.2 million in 2009 to RMB195.9 million in 2010.

The increase in sales of our fiber optic patch cords was due primarily to (i) an increase in our domestic sales volume from 9.3 million sets in 2009 to 10.2 million sets in 2010, which was primarily the result of the continued growth of our domestic market, (ii) an increase in sales volume in our overseas markets, particularly New Zealand and Ireland, from 0.3 million sets in 2009 to 0.5 million sets in 2010, which was primarily the result of the increased market demand driven by economic recovery in the overseas market, and (iii) the slight increase of the average selling price of our fiber optic patch cords from RMB64 in 2009 to RMB73 in 2010 because our overseas sales, which had higher selling price compared with our domestic sales, accounted for an increasing percentage of our total revenue from 2009 to 2010. The increase in sales of our connection and distribution products and equipment room accessories from 2009 to 2010 were due primarily to the growing demand for these products from our domestic customers.

**Cost of sales.** Our cost of sales increased by RMB124.9 million, or 28.0%, from RMB445.3 million in 2009 to RMB570.2 million in 2010. The increase was due primarily to (i) an increase of RMB118.1 million, or 28.1%, in our costs of raw materials, which was primarily the result of our increased sales, and (ii) an increase of RMB4.1 million, or 17.9%, in depreciation, as our new production facility that commenced operations in 2009 was subject to full year depreciation in 2010.

**Gross profit.** As a result of the foregoing, our gross profit increased by RMB67.7 million, or 33.8%, from RMB200.3 million in 2009 to RMB268.0 million in 2010. Our gross profit margin was 32.0% in 2010 compared to 31.0% in 2009. Our gross profit margin for our overseas sales was 52.8% and 53.9% in 2009 and 2010, respectively, while our gross profit margin for our domestic sales was 26.8% and 25.3% in the same years, respectively.

**Other income.** Other income increased by RMB0.4 million, or 24.8%, from RMB1.4 million in 2009 to RMB1.8 million in 2010.

**Selling and distribution costs.** Our selling and distribution costs increased by RMB2.8 million, or 55.7%, from RMB5.1 million in 2009 to RMB7.9 million in 2010. The increase was primarily attributable to an increase of RMB1.3 million in the advertisement fee and an increase of RMB0.9 million in the transportation fee in 2010, partially offset by a decrease of RMB0.3 million in entertainment fee in the same year.

**Administrative expenses.** Our administrative expenses increased by RMB7.8 million, or 29.9%, from RMB26.3 million in 2009 to RMB34.1 million in 2010. This increase was due primarily to an increase of RMB7.2 million, or 111.0%, in our professional fees paid to consultants and legal counsel in preparation of our initial public offering, partially offset by a decrease of RMB2.1 million in various administrative expenses.

---

## FINANCIAL INFORMATION

---

**Other operating expenses.** Our other operating expenses included donations, indemnification expenses, bank charges and loss on disposal of items of property, plant and equipment. Such expenses decreased by 38.5% from RMB91,000 in 2009 to RMB56,000 in 2010.

**Finance costs.** Our finance costs increased by RMB4.9 million, or 44.5%, from RMB11.0 million in 2009 to RMB15.9 million in 2010. This increase was due primarily to an increase of RMB4.5 million in interest on bank loans, which was primarily due to an increase in our bank loans to meet our increasing working capital requirement.

**Profit before tax.** As a result of the foregoing, our profit before tax increased by RMB52.5 million, or 32.9%, from RMB159.4 million in 2009 to RMB211.9 million in 2010.

**Income tax expense.** Our income tax expense increased by RMB9.7 million, by 47.7%, from RMB20.3 million in 2009 to RMB30.0 million in 2010. This increase was primarily due to an increase in our revenue and a higher effective tax rate in 2010, mainly attributable to the provision of a deferred tax liability of RMB2.5 million on the effect of a 10% withholding tax on the distributable profit of Sifang Telecom in 2010.

**Profit for the year and net profit margin.** As a result of the foregoing, our profit for the year increased by RMB42.8 million, or 30.1%, from RMB139.1 million in 2009 to RMB181.9 million in 2010. Our net profit margin, which equals our adjusted net profit margin for the same years, slightly increased from 21.5% in 2009 to 21.7% in 2010, primarily because our overseas sales, which represent higher profit margins compared to domestic sales, increased as a percentage of our total revenue.

**Foreign currency translation.** We recorded foreign currency exchange losses of RMB1.4 million in 2010 as compared with RMB162,000 in 2009. The increase in foreign currency exchange losses was due primarily to the devaluation of our U.S. dollar-denominated cash and bank balances as a result of the depreciation of the U.S. dollar against RMB.

**Total comprehensive income for the year attributable to owners of our company.** Total comprehensive income for the year attributable to owners of our company increased by 29.9%, or RMB41.6 million, from RMB138.9 million in 2009 to RMB180.5 million in 2010.

### Year ended December 31, 2009 compared to year ended December 31, 2008

**Revenue.** Our revenue increased by RMB311.2 million, or 93.0%, from RMB334.5 million in 2008 to RMB645.7 million in 2009. From 2008 to 2009, sales of our fiber optic patch cords increased by RMB332.3 million, or 117.6%, sales of our connection and distribution products decreased by RMB6.2 million, or 20.9%, and sales of our equipment room accessories decreased by RMB15.0 million, or 67.0%. Our domestic sales increased by RMB432.5 million, or 400.7%, from RMB107.9 million in 2008 to RMB540.5 million in 2009 and our overseas sales decreased by RMB121.4 million, or 53.6%, from RMB226.5 million in 2008 to RMB105.2 million in 2009.

The increase in sales of our fiber optic patch cords was due primarily to an increase in our domestic sales volume from 1.2 million sets in 2008 to 9.3 million sets in 2009. This increase was primarily the result of the expansion of our production capacity from 4.0 million sets of fiber optic patch cords in 2008 to 9.0 million sets in 2009 and the increase in market demand driven by the expansion of 3G networks in China. The increase in our domestic sales of fiber optic patch cords was partially offset by the decrease in our overseas sales due primarily to a decrease in our overseas sales volume from 0.5 million sets in 2008 to 0.3 million sets in 2009. This decrease was primarily because we refocused our sales and marketing efforts on the domestic market when our overseas market was adversely affected by the global economic downturn.

---

## FINANCIAL INFORMATION

---

The increase in sales of our fiber optic patch cords was also attributable to an increase in the domestic average selling price from RMB48 per unit in 2008 to RMB55 per unit in 2009, due primarily to our enhanced sales and marketing efforts in introducing to our customers more technically advanced products, which had higher prices compared to other products. The average selling price of our fiber optic patch cords sold in the overseas market decreased from RMB411 per unit in 2008 to RMB376 per unit in 2009, due primarily to a decrease in the prevailing overseas market price caused by the global financial downturn.

The decrease in sales of our connection and distribution products and equipment room accessories was due primarily to the decrease in the sales volume of connection and distribution products and equipment room accessories from 2008 to 2009. The decreases in the sales volume of these products were because we focused increasingly on the production and sales of our fiber optic patch cords in 2009 as fiber optic patch cord products represent higher profit margin compared to connection and distribution products and equipment room accessories and we only had limited machining capacity. The selling prices of our connection and distribution products and equipment room accessories remained stable from 2008 to 2009.

**Cost of sales.** Our cost of sales increased by RMB270.0 million, or 154.0%, from RMB175.3 million in 2008 to RMB445.3 million in 2009. The increase was due primarily to (i) an increase of RMB269.7 million, or 178.7%, in our costs of raw materials, which was primarily the result of our increased sales, and (ii) an increase of RMB10.7 million, or 85.9%, in depreciation, as our new production facility commenced operations at the end of 2008 and as a result, we only recorded one month depreciation in 2008 compared to a full year depreciation recorded in 2009.

The rate of our cost of sales increase was more than the growth rate of our sales from 2008 to 2009, primarily due to the decrease in our overseas sales as a percentage of our revenue. Overseas sales represent higher gross profit margin than domestic sales, as we refocused our sales and marketing efforts on the domestic market when our overseas market was adversely affected by the global economic crisis.

**Gross profit.** As a result of the increase in our revenue, our gross profit increased by RMB41.1 million, or 25.8%, from RMB159.2 million in 2008 to RMB200.3 million in 2009. Our gross profit margin was 31.0% in 2009 compared to 47.6% in 2008. Our gross profit margin for our overseas sales was 59.6% and 52.8% in 2008 and 2009, respectively, while our gross profit margin for our domestic sales was 22.5% and 26.8% in the same period, respectively. Our gross profit margin decreased because our domestic sales, representing lower profit margins compared to overseas sales, accounted for 83.7% of our total revenue in 2009, compared to 32.3% in 2008.

**Other income.** Other income increased by RMB0.3 million, or 27.3%, from RMB1.1 million in 2008 to RMB1.4 million in 2009.

**Fair value losses on convertible preference shares.** Our fair value losses on convertible preference shares represent changes in fair value of our convertible preference shares issued in September 2007. There was no change in the net fair value of the convertible preference shares during the year ended December 31, 2009 as all of our shareholders have put themselves in such economic position as if the conversion of all of Cathay's convertible preference shares into ordinary shares had taken place on December 22, 2008. Pursuant to the Subscription and Shareholders Agreement, Cathay was entitled to convert all of its convertible preference shares into ordinary shares at any time at its sole discretion.

**Selling and distribution costs.** Our selling and distribution costs decreased by RMB7.7 million, or 60.5%, from RMB12.8 million in 2008 to RMB5.1 million in 2009. This decrease was



---

## FINANCIAL INFORMATION

---

primarily because we paid RMB9.6 million overseas marketing fees in 2008 while we did not pay any overseas marketing fees in 2009 as we focused our sales and marketing efforts on the domestic market. The decrease was partially offset by an increase of RMB0.5 million, or 27.3%, in transportation fees from 2008 to 2009 due primarily to our increased domestic sales.

**Administrative expenses.** Our administrative expenses increased by RMB11.4 million, or 76.5%, from RMB14.9 million in 2008 to RMB26.3 million in 2009. This increase was due primarily to (i) an increase of RMB5.1 million, or 365.3%, in our professional fees paid to consultants and legal counsel in preparation of our initial public offering, (ii) an increase of RMB3.1 million, or 115.2%, in our other administrative expenses such as travelling expenses and office expenses, primarily as the result of the growth of our business, and (iii) an increase of RMB1.2 million, or 39.9%, in our staff costs, due primarily to the increase in our staff headcount and the increase in our staff's salaries.

**Other operating expenses.** Our other operating expenses included donations, indemnification expenses, bank charges and loss on disposal of items of property, plant and equipment. They decreased by 65.8% from RMB266,000 in 2008 to RMB91,000 in 2009.

**Finance costs.** Our finance costs increased by RMB4.1 million, or 59.4%, from RMB6.9 million in 2008 to RMB11.0 million in 2009. This increase was due primarily to an increase of RMB4.9 million, or 96.1%, in interest on bank loans from RMB5.1 million in 2008 to RMB10.0 million in 2009, which was primarily due to an increase in our bank loans to meet our increasing working capital requirements in line with the expansion of our production capacity. This increase was partially offset by a decrease in foreign exchange loss of RMB0.8 million.

**Profit before tax.** As a result of the foregoing, our profit before tax increased by RMB72.5 million, or 83.5%, from RMB86.9 million in 2008 to RMB159.4 million in 2009.

**Income tax expense.** Our income tax expense was nil in 2008 and RMB20.3 million in 2009. This increase was primarily because Sifang Telecom began being subject to the 12.5% PRC enterprise income tax since January 1, 2009 after its tax exemption expired in 2008.

**Profit for the year and net profit margin.** As a result of the foregoing, our profit for the year increased by RMB52.2 million, or 60.1%, from RMB86.9 million in 2008 to RMB139.1 million in 2009. Our net profit margin decreased from 26.0% in 2008 to 21.5% in 2009 and our adjusted net profit margin decreased from 37.5% in 2008 to 21.5% in 2009, primarily because our domestic sales, which represents lower profit margins compared to overseas sales, increased as a percentage of our total revenue.

**Foreign currency translation.** We recorded foreign currency exchange losses of RMB162,000 in 2009 as compared with the foreign currency exchange gains of RMB5.8 million in 2008. The foreign currency exchange gains of RMB5.8 million in 2008 was due primarily to the devaluation of our U.S. dollar-denominated convertible preference shares due to the depreciation of the U.S. dollar against the Renminbi. The foreign currency exchange losses of RMB162,000 in 2009 were due primarily to the devaluation of our U.S. dollar-denominated cash and bank balances due to the depreciation of the U.S. dollar against RMB.

**Total comprehensive income for the year attributable to owners of our company.** Total comprehensive income for the year attributable to owners of our company increased by 50.0%, or RMB46.3 million, from RMB92.6 million in 2008 to RMB138.9 million in 2009.



---

## FINANCIAL INFORMATION

---

### LIQUIDITY AND CAPITAL RESOURCES

#### Financial resources

During the Track Record Period, we have funded our operations and capital requirements from cash generated from our operations, trade credit from our suppliers and short-term bank loans. Our primary uses of funds have been for our increased working capital requirements, purchases of property, plant and equipment and acquisition of land use rights.

We currently do not anticipate difficulties in obtaining debt financing on commercially acceptable terms for our expansion plans, especially at the time when bank lending rates are low. However, our future capital expenditures and other cash requirements could be higher than we currently expect as a result of various factors, including changes in our expansion plans. Failure to obtain capital on commercially acceptable terms would increase our financing costs and may delay our capital expenditure plans. For instance, if the PRC government tightens credit or disruptions in the global credit market widens credit spreads, our financing costs could increase and our expansion plans may be affected.

#### Cash flow data

The following table sets forth selected cash flow data derived from our consolidated statements of cash flows for the periods indicated.

	Year ended December 31,		
	2008	2009	2010
	<i>(RMB in thousands)</i>		
Net cash flows from operating activities	102,252	11,836	93,445
Net cash flows used in investing activities	(207,870)	(68,755)	(137,646)
Net cash flows from financing activities	89,182	126,000	67,026
Net increase (decrease) in cash and cash equivalents	(16,436)	69,081	22,825

#### ***Net cash flows from operating activities***

Our net cash flows from operating activities are affected by: (i) our profitability, (ii) credit terms and settlement method given to us by different customers, (iii) payment method we made to suppliers, as well as (iv) level of inventory at the end of each reporting period.

In 2010, our net cash flows from operating activities were RMB93.4 million. This was primarily attributable to profit before tax of RMB211.9 million and (i) an increase in other payables and accruals of RMB92.1 million, due primarily to an increase in our VAT payable as a result of our increased sales and an increase in other payables in connection with the construction of new buildings, (ii) an adjustment of RMB28.8 million in depreciation and (iii) an adjustment of RMB14.5 million in interest on bank loans. The foregoing increases were partially offset by (i) an increase in trade receivables of RMB117.2 million, primarily due to our increased sales, (ii) a decrease in trade payables of RMB44.4 million, primarily due to our payment of trade payables and (iii) an increase in inventories of RMB14.4 million, primarily due to our increased sales.

---

## FINANCIAL INFORMATION

---

In 2009, our net cash flows from operating activities were RMB11.8 million. This was primarily attributable to profit before tax of RMB159.4 million and (i) an increase in other payables and accruals of RMB81.2 million, primarily due to an increase in our VAT payable as a result of our increased domestic sales, and (ii) an increase in trade payables of RMB49.8 million, primarily due to our increased raw materials procurement as a result of our increased sales. The foregoing increases were partially offset by (i) an increase in trade receivables of RMB294.3 million, primarily due to our increased sales, and (ii) an increase in prepayments, deposits and other receivables of RMB7.4 million, primarily due to an increase in prepayments made for the purchase of raw materials of RMB3.3 million, bank loan guarantee deposit of RMB1.0 million and bidding deposit for the purchase of land use right of RMB3.7 million.

In 2008, our net cash flows from operating activities was RMB102.3 million. This was primarily attributable to profit before tax of RMB86.9 million and (i) an adjustment of RMB38.5 million in fair value losses on convertible preference shares, representing changes in fair value of our convertible preference shares issued in September 2007, (ii) a decrease in prepayments, deposits and other receivables of RMB18.8 million, primarily due to a refund of deposit that we previously paid to purchase certain items of property, plant and equipment of RMB18.2 million, (iii) a RMB15.0 million adjustment for depreciation and (iv) a decrease in inventories of RMB9.5 million, primarily due to our increased sales. The foregoing increases were partially offset by an increase in trade receivables of RMB78.8 million, primarily due to our increased sales.

### ***Net cash flows used in investing activities***

In 2010, our net cash used in investing activities was RMB137.6 million, consisting primarily of (i) payments for purchases of property, plant and equipment of RMB134.9 million for our capacity expansion, (ii) an increase of RMB1.5 million in prepaid land lease payments in connection with our acquisition of land use rights and (iii) an increase of RMB1.2 million in pledged deposits.

In 2009, our net cash used in investing activities was RMB68.8 million, consisting primarily of (i) payments for purchase of property, plant and equipment of RMB57.1 million for our capacity expansion, and (ii) an increase of RMB13.4 million in prepaid land lease payments in connection with our acquisition of land use right.

In 2008, our net cash used in investing activities was RMB207.9 million, consisting primarily of payments for purchases of property, plant and equipment for our capacity expansion of RMB209.5 million. Our cash used in investing activities was slightly offset by subsidies from government and decrease in pledged bank deposits.

### ***Net cash flows from financing activities***

In 2010, our net cash provided by financing activities was RMB67.0 million, primarily consisting of new bank loans of RMB273.5 million, partially offset by repayment of bank loans of RMB206.0 million.

In 2009, our net cash provided by financing activities was RMB126.0 million, representing net proceeds from bank loans.

In 2008, our net cash provided by financing activities was RMB89.2 million, primarily consisting of (i) new bank loans of RMB80.0 million, (ii) contribution from former shareholders of RMB35.6 million, and (iii) proceeds from issue of shares of RMB21.6 million. Our net cash provided by financing activities were partially offset by our repayment of bank loans of RMB48.0 million.

## FINANCIAL INFORMATION

The table below sets forth the breakdown of our current assets and liabilities at end of each reporting period:

	As of December 31, 2008	2009 <i>(RMB in thousands)</i>	2010
<b>Current Assets</b>			
Inventories	9,718	10,636	25,028
Trade receivables	92,185	386,463	563,668
Prepayments, deposits and other receivables	570	7,958	10,925
Pledged bank deposits	—	—	1,200
Cash and cash equivalents	37,206	106,125	127,595
	<u>139,679</u>	<u>511,182</u>	<u>728,416</u>
<b>Current Liabilities</b>			
Due to a related party	474	474	—
Trade payables	14,087	63,897	19,546
Other payables and accruals	23,903	103,835	189,400
Tax payable	—	20,396	47,570
Dividend payable	—	—	51,206
Interest-bearing bank loans	80,000	206,000	273,500
	<u>118,464</u>	<u>394,602</u>	<u>581,222</u>
	<u>21,215</u>	<u>116,580</u>	<u>147,194</u>

Our net current assets increased from RMB 21.2 million as of December 31, 2008 to RMB116.6 million as of December 31, 2009 primarily as the result of the increases in our trade receivables and cash and cash equivalents, which were in turn primarily attributable to the increases in our sales from 2008 to 2009. Our net current assets increased from RMB116.6 million as of December 31, 2009 to RMB147.2 million as of December 31, 2010 primarily as the result of (i) an increase of RMB177.2 million in trade receivables as a result of our increased sales, (ii) an increase of RMB14.4 million in inventories as a result of our increased sales, (iii) an increase of RMB21.5 million in cash and cash equivalents and (iv) a decrease in trade payables of RMB44.3 million, primarily due to our payment of trade payables. The foregoing increases in current assets were partially offset by (i) an increase of RMB85.6 million in other payables and accruals, due primarily to an increase in our VAT payables as a result of our increased sales and an increase in other payables in connection with the construction of new buildings, (ii) the declaration of dividends of RMB51.2 million and (iii) an increase in interest-bearing bank loans of RMB67.5 million in 2010.

Based on the unaudited management account of our Group, as of April 30, 2011, the unaudited net current assets of our Group amounted to RMB203.6 million.

### Working capital

We have historically financed our operations through cash from operating activities and bank borrowings. In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flow, and proceeds from the Global Offering. Taking into account the financial resources available to us including internally generated funds, available banking facilities and the estimated net proceeds of the Global Offering, the directors are of the opinion that we have sufficient working capital to meet our present requirements, and at least for the period ending 12 months from the date of this prospectus.

---

## FINANCIAL INFORMATION

---

### Inventory analysis

Inventories are stated at the lower of cost and net realizable value. Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses these estimates at the end of each reporting period. There was no provision for inventories during the Track Record Period.

The following table sets out a summary of our inventory balances at the end of each reporting year indicated, as well as the turnover days of our inventory as of the respective reporting dates indicated.

	As of December 31,		
	2008	2009	2010
	<i>(RMB in thousands)</i>		
<i>At cost:</i>			
Raw materials	3,366	4,314	4,823
Work in progress	5,139	2,903	17,854
Finished goods	1,213	3,419	2,351
	<u>9,718</u>	<u>10,636</u>	<u>25,028</u>
Turnover days of inventory	30	8	11

Turnover days of inventory are reached by dividing the arithmetic mean of the beginning and ending balances of inventory for the relevant year by cost of sales and multiplying by the number of days in the relevant year. Our inventory turnover days were 30 days, 8 days and 11 days in 2008, 2009 and 2010, respectively. The significant decrease in inventory turnover days from 30 days in 2008 to 8 days in 2009 was because we improved our control over inventory turnover by establishing stringent rules on warehouse management and conducting inventory inspection on a frequent and regular basis. The inventory turnover days in 2009 and 2010 remain relatively low.

Our inventory balance increased by RMB0.9 million, or 9.2%, from RMB9.7 million as of December 31, 2008 to RMB10.6 million as of December 31, 2009 and increased by RMB14.4 million, or 135.3%, from RMB10.6 million as of December 31, 2009 to RMB25.0 million as of December 31, 2010, due primarily to the increase in our sales. As of February 28, 2011, all of the inventory balances as of December 31, 2010 had been used or sold.

### Trade receivables

Our trade receivables represent receivables from the sales of our products. Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The assessment of impairment of trade receivables involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. There was no impairment provision for receivables during the Track Record Period.

## FINANCIAL INFORMATION

We offer credit terms generally accepted in the communications equipment industry to our customers. Under the contracts with our domestic customers, we typically receive the initial payment of 35% of the total contract price within 30 days after the completion of the preliminary inspection of our products, and the remaining contract price within one to three months after the completion of the final inspection. We offer credit terms ranging from three months to one year to limited customers, including three of the major telecommunications network operators in China who generally request a longer credit period due to their significant capital investments in network expansion and upgrade. We decide on the length of credit terms based on price, the size of the contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit limits of customers are evaluated periodically.

Our management is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In September 2006, we adopted an internal policy to manage collection of overdue debts and set up a designated team to perform ongoing credit evaluation of our customers by monitoring their payment history. In our credit evaluation system, we rate our customers into different categories and offer credit limits and terms to them based on our credit evaluation at the beginning of each year. We create and keep a profile for each of our customers in order to review their payment status from time to time. The profiles are subject to update and reevaluation twice a year, which is used as the basis for the determination of credit terms we offer to different customers. Furthermore, we maintain a comprehensive evaluation procedure, including review by our finance department and management. In addition, we set conditions for product delivery based on credit evaluation in order to effectively manage the credit risks associated with trade receivables. In this regard, our directors consider our credit risk to be significantly reduced.

An aging analysis of our trade receivables at the end of each reporting period indicated is set forth below, based on the due date, as well as the turnover days of our trade receivables as of the respective reporting dates indicated:

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
0 to 360 days	89,045	362,326	556,409
361 to 390 days	296	10,257	2,773
391 to 420 days	1,397	4,862	7
421 to 450 days	–	6,051	3
451 to 480 days	–	1,435	1,541
Over 480 days	1,447	1,532	2,935
<b>Total</b>	<b>92,185</b>	<b>386,463</b>	<b>563,668</b>
Turnover days	58	135	207

As of April 30, 2011, we had collected RMB311.5 million, accounting for 55.3% of the outstanding balance as of December 31, 2010.

Trade receivables aged one year or more were RMB3.1 million, RMB24.1 million and RMB7.3 million as of December 31, 2008, 2009 and 2010, respectively. Our directors are of the view that because we did not experience any material difficulties during the Track Record Period in recovering trade receivables from our customers, we do not need to make provision to manage the collection of such trade receivables.

## FINANCIAL INFORMATION

A further aging analysis of our trade receivables within one year is set forth below as of the respective dates indicated:

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	16,351	22,706	47,515
31 to 90 days	24,289	55,962	194,206
91 to 180 days	48,172	190,335	186,730
181 to 360 days	233	93,323	127,958
	<u>89,045</u>	<u>362,326</u>	<u>556,409</u>

Trade receivables aged within one year increased significantly from RMB89.0 million as of December 31, 2008 to RMB362.3 million as of December 31, 2009 because sales to domestic customers, mainly three of the major telecommunications network operators in China, to whom we typically offer longer credit terms compared to overseas customers, accounted for an increasing percentage of our total revenue during this period. The increase in our trade receivables from 2008 to 2009 was also due to the delay in payments from some of our overseas customers who were impacted by the global economic and financial market crisis. Our trade receivables aged within one year increased from RMB362.3 million as of December 31, 2009 to RMB556.4 million as of December 31, 2010, due primarily to the increased trade receivables attributable to our overseas sales (which typically have credit terms of less than one year) and our domestic sales with credit terms of less than one year.

The aging of trade receivables is calculated on the first-in, first-out basis based on individual customers. Trade receivable aged 181 to 360 days as of December 31, 2010 mainly represented amount due from our major customers, such as three of the major telecommunications operators in China, to whom we offered longer credit term of 360 days. The increase in trade receivables aged less than 90 days as of December 31, 2010 primarily because our overseas sales, which generally had shorter turnover days, increased in both in absolute amount and as a percentage of our total sales in 2010.

Turnover days of trade receivables are derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant year by revenue and multiplying by the number of days in the relevant year. As such, the analysis of trade receivable turnover days can be influenced by the amount of outstanding receivable at either the opening or closing reporting date of the particular year being analyzed. For instance, in years where we experienced rapid growth, our trade receivable balance was higher at the closing date of such years, which in turn resulted in a higher arithmetic mean in the calculation of turnover days. Our revenue also fluctuated significantly due to a number of factors that are not periodic or seasonal. As these factors are not seasonal and do not correspond to the opening and closing dates of a particular year, our turnover days analysis may not be as indicative as other companies whose revenues fluctuate seasonally.

Trade receivable turnover days were 58 days, 135 days and 207 days in 2008, 2009 and 2010. The increase in trade receivable turnover days, from 58 days in 2008 to 135 days in 2009, was because our sales to the major customers to which we offered longer credit terms increased as a percentage of our total revenue from 2008 to 2009. Trade receivables turnover days increased from 135 days in 2009 to 207 days in 2010, because a large portion of our sales in 2010 were made in the second half of 2010, causing our average trade receivables balance to increase. During the



## FINANCIAL INFORMATION

Track Record Period, we did not experience any material recoverability problem of trade receivables from those major customers to whom we offered longer credit periods. Given that (i) we have established a credit valuation system to minimize the risks associated with collection of trade receivables, (ii) we typically only cater to our major customers' requests for long credit periods to secure their purchase orders and (iii) we did not experience material collection issues with our major customers during the Track Record Period, we have not planned to reduce the longer credit periods that we offered to our major customers.

### Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables consist of the following as of the respective reporting dates indicated:

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
Prepayments for purchase of raw materials	514	3,254	288
Guarantee deposit	–	1,000	3,500
Bidding deposit	–	3,682	2,177
Prepaid bank loan guarantee fee	–	–	280
Deferred listing fees	–	–	3,858
Other receivables	56	22	822
	570	7,958	10,925
<b>Total</b>	<b>570</b>	<b>7,958</b>	<b>10,925</b>

Other receivables and prepayments increased from RMB8.0 million as of December 31, 2009 to RMB10.9 million as of December 31, 2010 due primarily to (i) the payment of RMB3.8 million of deferred listing fees and (ii) an increase of RMB2.5 million in the payment for bank loan guarantee deposit to Hebei Baode Guarantee Co., Ltd. for the bank loan guarantee provided to us, partially offset by a decrease of RMB1.5 million in the payment of bidding deposit for the purchase of land use rights of the same land we obtained in 2009 located in the Shijiazhuang Economic and Technology Development Zone and a decrease of RMB3.0 million in prepayment for purchase of raw materials due to we have received a majority of raw materials we purchased during the year by the end of 2010. Other receivables and prepayments increased from RMB0.6 million as of December 31, 2008 to RMB8.0 million as of December 31, 2009 due primarily to (i) the payment of RMB3.7 million bidding deposit for the bidding of state-owned land use right of certain land located in the Shijiazhuang Economic and Technology Development Zone, (ii) an increase of RMB2.7 million in prepayment for purchase of raw materials as a result of our increased raw material procurement to meet the increasing production requirement, and (iii) the payment of RMB1.0 million bank loan guarantee deposit to Hebei Guokong Guarantee Co., Ltd., an Independent Third Party, for the bank loan guarantee provided to us. We obtained the land use rights certificates for the land located in the Shijiazhuang Economic and Technological Development Zone for which we paid a bidding deposit of RMB3.7 million in 2009. We plan to use the net proceeds from the Global Offering to build a new additional production facility on this parcel of land, which is expected to commence its operations in 2011.



## FINANCIAL INFORMATION

### Trade payables

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
Trade payables	<u>14,087</u>	<u>63,897</u>	<u>19,546</u>

Our trade payables represent amounts payable for purchases of raw materials and components from various suppliers. In 2008, we generally received credit terms of three months from our five largest suppliers. In 2009 and 2010, we typically paid our five largest suppliers 30%, 40%, 10% and 20% of the total price within one month, two months, three months and twelve months, respectively, from the receipt of goods.

We record our trade payables on the consolidated financial statements based on the estimated value of the raw materials and components received by our warehouse. After inspecting the delivery, we instruct our suppliers to issue us an invoice. As of the Latest Practicable Date, we have maintained good relationship with our suppliers.

Our trade payables increased significantly from RMB14.1 million as of December 31, 2008 and further to RMB63.9 million as of December 31, 2009 because our liquidity was constrained due to the significant increase in our trade receivables during the same period. Our trade payables decreased from RMB63.9 million as of December 31, 2009 to RMB19.5 million as of December 31, 2010 because we settled our trade payables of RMB26.3 million aged within 3 months and RMB18.1 million aged from 3 months to 6 months in 2010.

An aging analysis of our trade payables at the end of each reporting period indicated as well as the turnover days of our trade payables as of the respective reporting dates indicated is set forth below:

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
Within 3 months	11,887	42,019	15,729
3 months to 6 months	1,247	19,143	1,037
6 months to 1 year	42	1,494	1,648
Over 1 year	<u>911</u>	<u>1,241</u>	<u>1,132</u>
Total	<u>14,087</u>	<u>63,897</u>	<u>19,546</u>
Turnover days	23	32	27

Our trade payables aged within 3 months and from 3 months to 6 months increased significantly as of December 31, 2009 compared to that as of December 31, 2008. This was due primarily to our increased raw material procurement to meet our increasing production requirement.

Turnover days of trade payables are derived by dividing the arithmetic mean of the beginning and ending balances of net trade payables for the relevant period by cost of sales and multiplying by the number of days in the period.

## FINANCIAL INFORMATION

Our trade payables turnover days remained stable and were 23 days, 32 days and 27 days in 2008, 2009 and 2010, respectively. See “Business – Raw Materials and Components” for more detailed descriptions of our payment terms.

### Other payables and accruals

The following table sets forth our other payables and accruals as of the respective reporting dates indicated.

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
Payables relating to:			
Taxes other than income tax	5,922	86,916	175,717
Payroll and welfare payable	2,246	2,449	4,423
Construction of property, plant and equipment	12,695	11,870	5,374
Purchase of equipment	1,029	–	–
Advance from government agencies	2,000	2,000	2,000
Others	11	32	249
	23,903	103,267	187,763
Accruals	–	568	1,637
Total	23,903	103,835	189,400

Other payables and accruals included principally payables relating to construction in progress, advance from government agencies and taxes other than income tax. Our other payables and accruals increased significantly as of December 31, 2009 compared to those as of December 31, 2008 primarily as a result of the increase in taxes other than income tax, primarily due to an increase in our VAT payable as a result of our increased domestic sales. In December 2006, we obtained a three-year interest-free advance of RMB2 million from Shijiazhuang Municipal Finance Bureau and the Office of Shijiazhuang Financial Securities Supervisory Division for the purpose of paying the professional services fees in connection with our initial public offering. The advance is available for enterprises located in Shijiazhuang seeking initial public offerings. Pursuant to the agreement, we shall repay this advance within three months upon the completion of our initial public offering. In addition, Shijiazhuang Municipal Finance Bureau and the Office of Shijiazhuang Financial Securities Supervisory Division have the right to terminate the advance if, among other things, we use the advance for the purpose other than the initial public offering, or if we decide not to proceed with the initial public offering. Other payables and accruals increased as of December 31, 2010 compared to those as of December 31, 2009 due primarily to the increase in taxes other than income tax, i.e. our VAT payables as a result of our increased sales.

---

## FINANCIAL INFORMATION

---

### Foreign exchange/currency

In 2008, 2009 and 2010, we mainly operated in China with our overseas sales settled in U.S. dollar and our domestic sales settled in RMB. Our assets and liabilities are mainly denominated in RMB, except for certain trade receivables that are denominated in U.S. dollars, mainly arising from overseas sales conducted by us. From January 1, 2008 to December 31, 2010, RMB appreciated by 14.8% against the U.S. dollar. A 5% strengthening/weakening of the RMB against the U.S. dollar as of December 31, 2008, 2009, and 2010 would have decreased/increased our profit before tax by RMB1.8 million, RMB1.8 million and RMB4.3 million for the years ended December 31, 2008, 2009 and 2010, respectively. For a detailed discussion of the impact of the fluctuation in the exchange rates of RMB, see “Risk Factors – Fluctuations in the exchange rates of the RMB may adversely affect your investment and could materially affect our financial condition and results of operations.”

We have not used any forward contract or currency borrowing to hedge our exposure. As we continue to sell our products in the overseas market going forward, we may use forward contracts or currency borrowings in the future for hedging purposes.

### CAPITAL EXPENDITURE

We had capital expenditures of RMB235.2 million, RMB80.2 million and RMB106.8 million for the years ended December 31, 2008, 2009 and 2010, respectively. Our capital expenditures were made primarily for obtaining land use rights and the purchases of items of property, plant and equipment. Our capital expenditures have been primarily funded by net cash generated from our operating activities and cash provided by financing activities. For the year of 2011, we expect to incur capital expenditures of RMB304.6 million. We expect our capital expenditures in 2011 to primarily consist of the purchases of property, plant and equipment. We expect to fund these capital expenditures by cash generated from operating and financing activities.

### INDEBTEDNESS

We use interest-bearing bank loans in the course of operating our business. As of April 30, 2011, our total banking facilities amounted to RMB643.5 million, of which an amount of RMB372.7 million was utilized and an amount of RMB270.8 million is unutilized. The follow table sets forth our bank loans as of the respective reporting dates indicated.

	As of December 31,		
	2008	2009	2010
	<i>(RMB in thousands)</i>		
Repayable within one year:			
Guaranteed and secured	68,000	88,000	70,000
Secured	12,000	118,000	203,000
	<u>80,000</u>	<u>206,000</u>	<u>273,500</u>

## FINANCIAL INFORMATION

Our interest-bearing bank loans increased from RMB80.0 million as of December 31, 2008 to RMB206.0 million as of December 31, 2009 because we needed additional working capital as we experienced delay in payments from some of our overseas customers that were impacted by the global economic downturn and our sales to domestic customers, to whom we offer longer credit terms compared to our overseas customers, accounted for an increasing percentage of our total revenue during the same period. Our interest-bearing bank loans increased from RMB206.0 million as of December 31, 2009 to RMB273.5 million as of December 31, 2010 due primarily to the increase in our working capital requirement, which was in line with the increase of our sales in 2010. Our interest-bearing bank loans further increased from RMB273.5 million as of December 31, 2010 to RMB372.7 million as of April 30, 2011 due mainly to additional requirement for working capital.

As of December 31, 2008, 2009 and 2010 and April 30, 2011, all of our interest-bearing bank loans were denominated in RMB. Our bank loans were guaranteed and secured as follows as of each of the reporting dates indicated below:

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
<i>Guaranteed by:</i>			
Related party	50,000	50,000	–
Third parties	38,000	38,000	70,000
	88,000	88,000	70,000
<i>Secured by (net book amount pledged):</i>			
Property, plant and equipment	46,650	128,237	134,657
Land use rights	697	25,304	26,214
	47,347	153,541	160,871

Our bank loans with a balance of RMB50.0 million and RMB50.0 million as of December 31, 2008 and 2009, respectively, were guaranteed by Mr. Zhao Bing, our chairman and one of the Kemy Shareholders to us for nil consideration. These loans had been paid off as of May 2010.

The effective interest rates of our bank loans per annum were 7.20% to 7.66%, 5.31% to 11.52% and 6.11% to 7.43% as of December 31, 2008, 2009 and 2010, respectively.

## FINANCIAL INFORMATION

Our Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt includes interest-bearing bank loans, trade payables, other payables and accruals, tax payable and an amount due to a related party less cash and cash equivalents. Our Group's policy is to keep the gearing ratio at a reasonable level. The following table sets forth our Group's gearing ratios as of the respective dates indicated:

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans	80,000	206,000	273,500
Trade payables	14,087	63,897	19,546
Other payables and accruals	23,903	103,835	189,400
Tax payable	–	20,396	47,570
Dividend payable	–	–	51,206
Due to a related party	474	474	–
Less: Cash and cash equivalents	<u>(37,206)</u>	<u>(106,125)</u>	<u>(127,595)</u>
Net debt	81,258	288,477	453,627
Equity	<u>409,198</u>	<u>548,119</u>	<u>677,429</u>
Equity and net debt	<u><u>490,456</u></u>	<u><u>836,596</u></u>	<u><u>1,131,056</u></u>
Gearing ratio	17%	34%	40%

The gearing ratio increased from 17% as of December 31, 2008 to 34% as of December 31, 2009 primarily due to an increase of RMB207.2 million in net debt. The gearing ratio increased from 34% as of December 31, 2009 to 40% as of December 31, 2010 primarily due to (i) an increase of RMB85.6 million in other payables and accruals mainly attributable to an increase in our VAT payable, (ii) an increase of RMB67.5 million in our interest-bearing bank loans due primarily to the increase of our working capital requirement and (iii) an increase of RMB51.2 million in net debt in connection with the dividend payable, partially offset by a decrease of RMB44.4 million in the trade payables. For details on our other payables and accruals during the Track Record Period, please see “– Liquidity and Capital Resource – Other Payables and Accruals” in this section.

### CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

The following table presents our capital commitments as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB in thousands)</i>		
<b>Contracted, but not provided for</b>			
Land use rights	13,419	–	–
Plant and machinery	<u>12,544</u>	<u>–</u>	<u>122,092</u>
Total	<u><u>25,963</u></u>	<u><u>–</u></u>	<u><u>122,092</u></u>

---

## FINANCIAL INFORMATION

---

### CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any contingent liabilities.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions described in Note 31 of the Accountants' Report attached as Appendix I to this prospectus, our directors have confirmed that the transactions were conducted on normal commercial terms or on terms more favorable to our Group, and entered into in the ordinary course of business.

### OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-statement of financial position arrangements.

### MARKET RISKS

Our business and results of operations are affected by economic cycles, including the recent global financial and economic crisis. Since the second half of 2008, the global financial system has experienced significant difficulties and disruptions, leading to reduced liquidity, greater volatility, widened credit spreads and a lack of price transparency in the global credit and financial markets. The difficulties in global credit and financial markets have also resulted in a widening global economic crisis. There are indications that the current financial and economic downturn may persist or worsen. A global recession or an economic downturn in China, as well as uncertainties regarding the future economic prospects of China or other major economies in the world, could depress the prices of fiber optic patch cords and related accessory products and affect the demand of our products, which may adversely affect our results of operations. Nonetheless, we will continue to monitor the latest development in our target markets through our sales team for opportunities to ramp up sales with our existing customers and to develop new customer relationships. Apart from the inherent risks of the economy, we are also exposed to credit, currency and interest rate risks in the normal course of our business.

#### Credit risk

Our principal financial assets are cash and cash equivalents, trade receivables and other receivables. Cash and cash equivalents are mainly deposits with state-owned banks in Mainland China. Credit risk is primarily attributable to the trade receivables. As of December 31, 2008, 2009 and 2010, trade receivables from our major customers amounted to RMB24.6 million, RMB267.9 million and RMB470.1 million, respectively, which accounted for 26.7%, 69.3% and 83.4% of trade receivables at the end of each reporting period.

The carrying amounts of trade receivables, prepayments and other receivables, pledged deposits and cash and cash equivalents included in the consolidated statements of financial position represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk.

---

## FINANCIAL INFORMATION

---

In order to minimize the credit risk, our management continuously monitors the credit quality and financial condition of customers and the level of exposure by regular review of the credit evaluation of customers and suppliers to ensure that prompt action is taken to recover overdue debts and to lower exposure. Our management evaluates the credit quality and financial conditions of our suppliers based on their financial results, press releases and informal communications from time to time when they are aware of any unusual conduct or event in relation to suppliers. In respect of the credit quality and financial conditions of customers, we adopted and will continue to implement a customer appraisal program in which we review our receivables, assess each customer's credibility and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our directors consider that credit risk is significantly reduced.

### **Foreign currency risk**

Our businesses are mainly located in China and our overseas sales were settled in U.S. dollar and our domestic sales were settled in RMB. Most of our assets and liabilities are denominated in RMB, except for certain trade receivables that are denominated in US dollars, mainly arising from overseas sales conducted by us. We have not hedged our foreign exchange rate risk.

### **Interest rate risk**

We are exposed to fair value interest rate risk which arose from pledged bank deposits, bank balances and interest bearing bank loans. Our interest bearing pledged bank deposits and bank balances are mainly short-term in nature. Our cash flow interest rate risk is mainly concentrated on the fluctuation of the PBOC Rate arising from our RMB denominated bank loans. Therefore, any future variations in interest rates are not likely to have a significant impact on our results of operations. We currently have not implemented any interest rate hedging policy. However, our management monitors interest rate exposure and will consider repaying bank loans when significant interest rate exposure is anticipated.

### **INFLATION**

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the change of consumer price index in China was 5.9%, (0.7)% and 3.3% in 2008, 2009 and 2010, respectively. Although we were not materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a portion of our assets consists of cash and cash equivalents and short-term investments in RMB, high inflation could reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.



---

## FINANCIAL INFORMATION

---

### PROPERTY INTERESTS

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests attributable to us, as of March 31, 2011 at RMB193,941,000. The text of its letter, summary of valuation and valuation certificates are set out in “Appendix IV – Property Valuation” to this prospectus. Our property interests include the building ownerships and land use rights.

The table below sets out (i) the reconciliation of our property interests shown in our audited consolidated financial statements as of December 31, 2010 to the unaudited net book amount of our property interests as of March 31, 2011 and (ii) the reconciliation of the unaudited net book amount of our property interests as of December 31, 2010 and the valuation of such property interests as of March 31, 2011:

	<i>RMB in thousands</i>
Net book amount of property interests:	
– Buildings	107,608
– Prepaid land lease payments	26,214
	<hr/>
Net book amount as of December 31, 2010	133,822
Add: Addition during the period from January 1, 2011 to March 31, 2011	–
Less: Depreciation/amortization during the period	(677)
	<hr/>
Net book amount as of March 31, 2011	133,145
Valuation surplus	61,899
	<hr/>
Valuation of properties as of March 31, 2011 as set out in “Appendix IV – Property Valuation” <sup>(1)</sup>	195,044
	<hr/> <hr/>

*Note:*

- (1) Calculated by adding the aggregate capital value of RMB193,941,000 as of March 31, 2011 and the depreciated replacement cost of RMB1,103,000 for reference purpose as stated on page IV-9 of Appendix IV to this prospectus.

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Global Offering on the adjusted net tangible assets of our Group as of December 31, 2010, as if they had taken place on such date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group following the Global Offering. It is based on the audited consolidated net assets of our Group as of December 31, 2010 as shown in the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma adjusted net tangible assets does not form part of the Accountants' Report.

	Audited consolidated net tangible assets attributable to owners of our company as of December 31, 2010 <sup>(1)</sup>	Estimated net proceeds from the issue of Offer Shares <sup>(2)</sup>	Unaudited pro forma adjusted net tangible assets attributable to owners of our company <sup>(3)</sup>	Unaudited pro forma adjusted net tangible assets per Share <sup>(4)</sup>	
	<i>RMB in millions</i>	<i>RMB in millions</i>	<i>RMB in millions</i>	<i>RMB</i>	<i>HK\$<sup>(5)</sup></i>
Based on Offer Price of HK\$1.20 per share	662	260	922	0.77	0.92
Based on Offer Price of HK\$1.60 per share	662	356	1,018	0.85	1.02

*Notes:*

- (1) As of December 31, 2010, our audited consolidated net tangible assets attributable to owners of our company were equal to equity attributable to owners of our company less goodwill.
- (2) The estimated net proceeds from the Global Offering are based on hypothetical Offer Prices of HK\$1.20 and HK\$1.60, respectively, per Offer Share, assuming no exercise of the Over-allotment Option, after deduction of underwriting fees and estimated expenses payable by us in connection with the Global Offering.
- (3) By comparing the valuation of our property interests as set out in Appendix IV to this prospectus and the audited net book amount of these properties as of December 31, 2010, the valuation surplus was RMB62 million, which has not been included in the above net tangible assets attributable to owners of our company. The valuation surplus of our property interests will not be incorporated in our consolidated financial statements for the year ending December 31, 2011. If the valuation surplus were to be included in our consolidated financial statements for the year ending December 31, 2011, an additional depreciation charge of RMB1.2 million would be incurred.
- (4) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 1,200,000,000 Shares expected to be in issue immediately after the Capitalization Issue and the completion of the Global Offering. No account has been taken of (i) any Shares which may be allotted and issued upon exercise of the Over-allotment Option, (ii) any Shares which may be issued upon exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or (iii) any Shares which may be issued or repurchased by our company pursuant to the mandates set out in Appendix VI to this prospectus.
- (5) The Renminbi amount has been translated into Hong Kong dollar at HK\$1.00: RMB0.8332.

For details of our unaudited pro forma financial information, please refer to "Unaudited Pro Forma Financial Information" set forth in Appendix II to this prospectus.

---

## FINANCIAL INFORMATION

---

### PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2011

Our directors forecast that, on the basis set out in Part A of Appendix III to this prospectus, the forecast consolidated profit attributable to owners of our company for the six months ending June 30, 2011 will not be less than RMB93.0 million. The unaudited pro forma forecast earnings per Share of our Group for the six months ending June 30, 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2011. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial results of our Group following the Global Offering.

Forecast consolidated profit attributable to owners of our company for the six months ending June 30, 2011 <sup>(1)</sup> . . . . .	not less than RMB93.0 million <sup>(4)(5)</sup> (HK\$111.6 million) <sup>(3)</sup>
Unaudited pro forma forecast earnings per share for the six months ending June 30, 2011 <sup>(2)</sup> . . . . .	not less than RMB0.078 (HK\$0.093) <sup>(3)</sup>

*Notes:*

- (1) The bases on which the above Profit Forecast for the six months ending June 30, 2011 has been prepared are summarized in Part A of Appendix III to this prospectus.
- (2) The calculation of unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to owners of our company for the six months ending June 30, 2011 of RMB93.0 million and on the assumptions that our company has been listed since January 1, 2011 and a total number of 1,200,000,000 Shares were in issue during the six months ending June 30, 2011.
- (3) The forecast consolidated profit attributable to owners of our company and the unaudited pro forma forecast earnings per Share are converted into Hong Kong Dollars at an exchange rate of HK\$1.00 to RMB0.8332.
- (4) The forecast consolidated profit attributable to the owners of our company for the six months ending June 30, 2011 will be no less than RMB93.0 million, taking into account of the listing expenses in the amount of RMB21.3 million that will be allocated and charged to profit or loss for the six months ending June 30, 2011.
- (5) Our Group does not anticipate any material fluctuation in the average pricing of our principal raw materials during the six months ending June 30, 2011.

We have undertaken to the Stock Exchange that our interim report for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules if the Shares are listed on the Stock Exchange.

### DIVIDEND POLICY

We currently do not have a dividend policy. The declaration, payment and amount of dividends in the future will be at the discretion of our directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our Articles of Association and the Cayman Companies Law. Under the Articles of Association and the Cayman Companies Law, payment of dividends out of our share premium account is possible on the condition that we are able to pay our debts when they become due in the ordinary course of business at the time the proposed dividend is to be paid. Our shareholders in a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our directors. No dividend shall be declared or payable

---

## FINANCIAL INFORMATION

---

except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our directors. In addition, our Controlling Shareholders will be able to influence the approval by our shareholders in a general meeting for any payment of dividends. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means which our directors deem legal, fair and practicable.

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

In January 2010, we declared a one-off and nonrecurring special dividend of US\$7.5 million to all of our registered shareholders. Such dividend will be fully settled before the Listing with cash generated from our operations. The dividends will be distributed through Pacific Gain Technologies, our subsidiary in Hong Kong, and therefore will not be subject to the PRC withholding tax.

We have not entered into any agreement under which future dividends are waived or agreed to be waived.

Under the Articles of Association and the Cayman Companies Law, payment of dividends out of our share premium account is possible on the condition that we are able to pay our debts when they become due in the ordinary course of business at the time the proposed dividend is to be paid.

### **DISTRIBUTABLE RESERVE**

As of December 31, 2010, the aggregate amount of distributable reserves of our company was RMB67.7 million.

### **DISCLOSURE UNDER THE LISTING RULES**

Our directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

Our directors confirm that there has been no material adverse change in our business development, the financial or trading position or prospects of our Group since December 31, 2010, the date to which the latest audited financial statements of our Group were made up.

---

## FUTURE PLANS AND USE OF PROCEEDS

---

### FUTURE PLANS

Please see the section headed “Business – Strategies” in this prospectus for a detailed description of our business strategies and future plans.

### USE OF PROCEEDS

Based on an Offer Price of HK\$1.40 per Offer Share, being the midpoint of the Offer Price range stated in this prospectus, we estimate that we will receive net proceeds from the Global Offering of HK\$347 million from the new 300,000,000 Offer Shares to be offered by us, after deducting underwriting fees and expenses payable by us and assuming the Over-allotment Option is not exercised.

We intend to use these net proceeds for the following purposes:

- Approximately 21.5%, or HK\$75 million, which will be the estimated cost for the construction of plants to increase our production and machining capacity. We plan to commence the construction upon receipt of the net proceeds from the Global Offering and expect to complete the construction by 2011. We believe that the additional production capacity can be absorbed by the increasing demand for our products;
- Approximately 21.2%, or HK\$73 million, will be used to expand our production capacity of soft optical cables from 13,000 kilometers to 130,000 kilometers of soft optical cables by building nine new soft optical cable production lines, which are expected to commence operations in 2011;
- Approximately 20.0%, or HK\$69 million, will be used to expand our production capacity of fiber optic patch cords from 9 million to 12 million sets of fiber optic patch cords by building two additional fiber optic patch cord production lines, which are expected to commence operations in 2011;
- Approximately 15.2%, or HK\$53 million, will be used to expand our machining capacity from processing 1,300 tons of steel plates annually to 7,700 tons of steel plates annually by purchasing new equipment;
- Approximately 12.8%, or HK\$44 million, will be used to purchase equipment and facilities for research and development; and
- Approximately 9.3%, or HK\$33 million, will be used for working capital and other general corporate purposes.

We will not receive any of the proceeds from the sale of the Sales Shares in the Global Offering by the Selling Shareholders.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$1.60 per Offer Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by HK\$57 million. In such case, we intend to apply the additional net proceeds in the manner stated above on a pro-rata basis.

---

## FUTURE PLANS AND USE OF PROCEEDS

---

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$1.20 per Offer Share, the net proceeds to us from the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease by HK\$57 million. In such case, we intend to reduce the allocation of such net proceeds in the manner stated above on a pro-rata basis.

If the net proceeds to us from the Global Offering are lower than the capital requirements from the above future plans, we expect to fund these capital requirements by bank loans. If the net proceeds to us from the Global Offering exceed the capital requirements from the above future plans, we will allocate the surplus proceeds to working capital.

If the Over-allotment Option is exercised in full, we estimate that we will receive net proceeds of HK\$318 million at the low-end of the Offer Price range of HK\$1.20 per Offer Share and HK\$442 million at the high-end of the Offer Price range of HK\$1.60 per Offer Share, after deducting the estimated underwriting fees and expenses payable by us. The additional net proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the abovementioned purposes.

---

## UNDERWRITING

---

### UNDERWRITERS

#### *International Underwriters*

**Sole Lead Manager**

BOCI Asia Limited

**Co-Lead Manager**

DBS Asia Capital Limited

#### *Hong Kong Underwriters*

**Sole Lead Manager**

BOCI Asia Limited

**Co-Managers**

Essence International Financial Holdings Limited

Fulbright Securities Limited

KGI Capital Asia Limited

Kingsway Financial Services Group Limited

### UNDERWRITING ARRANGEMENTS, COMMISSIONS AND EXPENSES

#### **Hong Kong Public Offer**

#### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Public Offer, our company is offering the Hong Kong Offer Shares (subject to adjustment) for subscription by the public in Hong Kong subject to the terms and conditions of this prospectus and the Application Forms. Pursuant to the Hong Kong Underwriting Agreement, and conditional upon, among other things, the Listing Committee granting the Listing of, and permission to deal in, our Shares in issue, the Offer Shares to be issued as mentioned in this prospectus (including any additional Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options granted under Pre-IPO Share Option Scheme and or to be granted under the Share Option Scheme) subject to such customary conditions that may be imposed by the Stock Exchange and certain other conditions including the Offer Price being determined by the company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) by entering into the Price Determination Agreement on or before the Price Determination Date, the Hong Kong Underwriters have agreed severally (not jointly or jointly and severally) to subscribe or procure subscribers to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer.



---

## UNDERWRITING

---

### ***Grounds for termination***

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination at any time prior to 8:00 a.m. on the Listing Date. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may in its sole and absolute discretion, upon giving notice in writing to our company, terminate the Hong Kong Underwriting Agreement with immediate effect upon the occurrence of any of the following events:

- (a) there has come to the notice of the Sole Global Coordinator:
  - (i) that any statement contained in any of the web proof information pack, this prospectus, the Application Forms and the formal notice (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any respect or any forecasts, expressions of opinion, intention or expectation expressed in the web proof information pack, this prospectus, Application Forms, formal notice and/or any announcements issued by our company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) are not fair and honest or not based on reasonable assumptions; or
  - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute an omission therefrom; or
  - (iii) any breach of any of the warranties, obligations or undertakings given by or imposed upon any party to the Underwriting Agreements (other than any of the Hong Kong Underwriters or the International Underwriters) or any matter or event showing any of such warranties, obligations or undertakings to be untrue, incorrect, inaccurate or misleading or having been breached in any respect when given or repeated; or
  - (iv) any matter, event, act or omission which gives or is likely to give rise to any liability of any of the Warrantors pursuant to the indemnities referred to in the Underwriting Agreements given by the Warrantors or any of them; or
  - (v) any change or prospective change or development (whether or not permanent) in the earnings, business, operations, assets, liabilities, conditions, business affairs, results of operations, properties, prospects, profits, losses, or in the financial or trading position or performance of any member of our Group or our Group as a whole; or
  - (vi) that approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified or withheld; or
  - (vii) our company withdrawing this prospectus and the Application Forms (and any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
  - (viii) any person (other than the Hong Kong Underwriters) having withdrawn or sought to withdraw its consent to being named in or to the issue of this prospectus or any of the Application Forms; or

---

## UNDERWRITING

---

- (b) there develops, occurs, exists or comes into force:
- (i) any act of force majeure or any event, or series of events, beyond the control of the Sole Global Coordinator including, without limitation, acts of government, economic sanctions, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), outbreak of diseases or epidemics (including, without limitation, SARS and H5N1 and such related/mutated forms) or interruption or delay in transportation and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or any other state of emergency or calamity or crisis in or affecting Hong Kong, the PRC, the United States, Canada, New Zealand, the British Virgin Islands, the European Union (or any member thereof), the United Kingdom, the Cayman Islands, Japan, Singapore or any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**”); or
  - (ii) any change or development involving a prospective change or development, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, currency or market matters or conditions or any monetary or trading settlement system or matters and/or disaster (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, or any moratorium, suspension, limitation or material restriction on trading in securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, the New York Stock Exchange, NYSE Amex Equities, the Nasdaq National Market, the London Stock Exchange, or any other major international stock exchange, or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currencies (including, without limitation, a change in the system under which the value of the Hong Kong currency is linked to that of the United States), or any disruption in securities settlement or clearance services or procedures in or affecting any of the Relevant Jurisdictions); or
  - (iii) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions, or any disruption in commercial banking or securities settlement or clearance services in any of the Relevant Jurisdictions or any jurisdiction where any of the stock exchanges referred to in paragraph (ii) above is located; or
  - (iv) any new law or change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
  - (v) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
  - (vi) the occurrence of a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
  - (vii) any litigation or claim being threatened or instigated against any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder; or

---

## UNDERWRITING

---

- (viii) any director of our company being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (ix) the chairman or chief executive officer of our company vacating his office; or
- (x) the commencement by any judicial or regulatory or political body or organization of any action against any director of our company, or an announcement by any judicial or regulatory or political body or organization that it intends to take any such action; or
- (xi) any contravention by any member of our Group of the Companies Ordinance, the Listing Rules or any applicable law; or
- (xii) any prohibition on our company for whatever reason from allotting or selling the Offer Shares (including the additional Shares that may be allotted and issued by our company upon the exercise of the Over-allotment Option) or on the Selling Shareholders or the Over-allotment Selling Shareholder from selling the Sale Shares or the Over-allotment Sales Shares, respectively, pursuant to the terms of the Global Offering; or
- (xiii) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer, subscription or sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any applicable law; or
- (xiv) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our company of a supplemental prospectus or any other documents pursuant to the Companies Ordinance or the Listing Rules; or
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder or in respect of which any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder is liable prior to its stated maturity, or any loss or damage sustained by any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xvi) a petition being or having been presented for the winding up or liquidation of any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder, or any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder making or having made any compromise or arrangement with its creditors or enters into a scheme of arrangement, or any resolution being or having been passed for the winding-up of any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder, or a provisional liquidator, receiver or manager being or having been appointed over all or part of the assets or undertaking of any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder, or anything analogous thereto having occurred in respect of any member of our Group, any of the Controlling Shareholders, any of the Selling Shareholders or the Over-allotment Selling Shareholder; or

---

## UNDERWRITING

---

(xvii) any change or prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus;

and which, in any of the above cases, in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Underwriters):

- (aa) is or is likely to or will or may have a material adverse effect on the business, financial, trading or other condition or prospects of our company or our Group as a whole; or
- (bb) has or will have or may have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for, accepted, subscribed for or purchased or the distribution of Offer Shares or dealings in the Shares in the secondary market; or
- (cc) makes or may make or will or is likely to make it inadvisable, inexpedient or impracticable to proceed with or market the Hong Kong Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus; or
- (dd) would have the effect of making any part of the Underwriting Agreements incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the Underwriting Agreements.

“Material adverse effect” refers to a material adverse change, or any development likely to involve a prospective material adverse change, in the condition, financial, operational or otherwise, or in the earnings, business affairs or business prospects, assets or liabilities of our company or any member of our Group, whether or not arising in its ordinary course of business.

Similar events are expected to be contained in the International Underwriting Agreement that may allow the International Underwriters to terminate their respective obligations under such agreement.

### **International Offering**

In connection with the International Offering, it is expected that our company, the Controlling Shareholders, the Selling Shareholders, the Over-allotment Selling Shareholder, and the executive directors and the non-executive director of our company will enter into the International Underwriting Agreement with the International Underwriters on or about the Price Determination Date.

Under the International Underwriting Agreement, subject to the terms and conditions set forth in such agreement, the International Underwriters are expected to severally (not jointly or jointly and severally) agree to subscribe or procure subscribers to subscribe for, the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, the Warrantors will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement as described in the section headed “Undertakings” below.

---

## UNDERWRITING

---

Our company is expected to grant to the Sole Global Coordinator as the stabilizing manager the Over-allotment Option exercisable at any time from the Listing Date up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offer, to require our company to allot and issue, and the Over-allotment Selling Shareholder to sell, up to an aggregate of 60,900,000 additional Shares (comprising 24,900,000 new Shares and 36,000,000 Over-allotment Sale Shares), representing in aggregate not more than 15% of the Offer Shares initially available under the Global Offering, at the same price per Offer Share under the Global Offering, solely to cover over-allocation, if any, in the International Offering.

### **Commissions and expenses**

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer, out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 3.5% on the Offer Price payable for the International Offer Shares initially offered under the International Offering, and the additional Shares issued and the Over-allotment Sale Shares sold pursuant to the exercise of the Over-allotment Option, if applicable. In addition, we will pay an incentive fee of 1.0% of the aggregate Offer Price payable for the Offer Shares under the Global Offering solely to the Sole Global Coordinator in connection to the services provided in the Global Offering. The aggregate commissions and fees, together with listing fees, legal and other professional fees and printing and other expenses relating to the Global Offering and the SFC transaction levy and Stock Exchange trading fee are estimated to be HK\$85 million in aggregate (based on the Offer Price of HK\$1.40, being the mid-point of the indicative Offer Price range between HK\$1.20 and HK\$1.60 and assuming the Over-allotment Option is not exercised at all), out of which HK\$73 million is borne by our company and HK\$12 million is borne by the Selling Shareholders.

### **Undertakings to the Stock Exchange pursuant to the Listing Rules**

#### ***Undertakings by our company***

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering or any issue of shares or securities in compliance with Rules 10.08 (1) to (4) of the Listing Rules, our company will not, at any time within six months from the Listing Date, issue any shares or other securities convertible into equity securities of our company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Capitalization Issue, the Global Offering (including the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme) or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

---

## UNDERWRITING

---

### ***Undertakings by our Controlling Shareholders***

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to, among others, our company and the Stock Exchange that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), he or she or it will not, and will procure that any other registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (i) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or she or it is shown by this Prospectus to be the beneficial owner of the Shares (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”); or
- (ii) during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a controlling shareholder (as defined in the Listing Rules) of our company.

Furthermore, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to, among others, our company and the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or she or it will:

- (i) if he or she or it pledges or charges any of our securities beneficially owned by him or her or it in favor of an authorized institution (as defined in the Banking Ordinance) for a *bona fide* commercial loan, immediately inform our company of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) if he or she or it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities will be disposed of, immediately inform our company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### ***Undertakings by our company***

Pursuant to the Hong Kong Underwriting Agreement, our company has undertaken to the Sole Global Coordinator and the Hong Kong Underwriters (and is expected to undertake to the International Underwriters), and the Controlling Shareholders have agreed to procure (and are expected to agree with the International Underwriters to procure) that, except pursuant to the Capitalization Issue, the Global Offering (including pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme), at any time after the date of the Hong Kong Underwriting Agreement and until the expiry of First Six-month Period, our company will not, without the prior



---

## UNDERWRITING

---

written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (i) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any such share capital or other securities of our company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein) or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such share capital or securities or any interest therein or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) above,

whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of the Shares or other securities, in cash or otherwise.

### ***Undertakings by our Controlling Shareholders***

Each of the Controlling Shareholders has undertaken to our company, the Sole Global Coordinator and the Hong Kong Underwriters (and is expected to undertake to the International Underwriters) that, except pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) from the date of the Hong Kong Underwriting Agreement until the expiry of the First Six-month Period, it will not, and will procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it will not:
  - (i) offer, pledge, charge (other than any pledge or charge of our company's issued share capital after the Global Offering in favor of an authorized institution (as defined in the Banking Ordinance, for a *bona fide* commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Relevant Securities or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
  - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of the Relevant



---

## UNDERWRITING

---

Securities or any interest therein or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or

- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i), (ii) or (iii) above,

whether any such transaction is to be settled by delivery of any of the Relevant Securities, in cash or otherwise;

- (b) in the Second Six-month Period, it will not enter into any of the transactions in (a)(i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal, our Controlling Shareholders will cease to be a controlling shareholder; and
- (c) until the expiry of the Second Six-month Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our company.

Each of our Controlling Shareholders has further undertaken to each of our company, the Sole Global Coordinator, and the Hong Kong Underwriters that until the expiry of the Second Six-month Period, it will:

- (i) when it pledges or charges any securities or interests or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution in the securities of our company, immediately inform our company and the Sole Global Coordinator in writing of such pledge or charge together with the number of securities and nature of interest so pledged or charged; and
- (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in or rights attaching to the securities of our company will be sold, transferred or disposed of, immediately inform our company and the Sole Global Coordinator in writing of such indications.

### ***Undertakings by the Selling Shareholders***

Each of the Selling Shareholders has undertaken to our company, the Sole Global Coordinator, and the Hong Kong Underwriters (and is expected to undertake to the International Underwriters) that, except pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, from the date of the Hong Kong Underwriting Agreement until the expiry of the First Six-month Period, it will not, and will procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it will not:

- (a) offer, pledge, charge (other than any pledge or charge of our company's issued share capital after the Global Offering in favor of an authorized institution (as defined in the Banking Ordinance) for a *bona fide* commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either

---

## UNDERWRITING

---

directly or indirectly, conditionally or unconditionally, any Relevant Securities or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of the Relevant Securities or any interest therein or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above,

whether any such transaction is to be settled by delivery of any of the Relevant Securities, in cash or otherwise.

### **HONG KONG UNDERWRITERS' INTEREST IN OUR COMPANY**

Except for its obligations under the Hong Kong Underwriting Agreement, none of the Sole Global Coordinator or the Hong Kong Underwriters is interested legally or beneficially in the shares of any of the members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of the members of our Group.

Following completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### **INDEPENDENCE OF THE SOLE SPONSOR**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as required under Rule 3A.07 of the Listing Rules.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.60 and is expected to be not less than HK\$1.20 per Offer Share. Based on the maximum Offer Price of HK\$1.60 per Offer Share, plus 1% brokerage fee, 0.003% SFC transaction levy, and 0.005% Stock Exchange trading fee, one board lot of 2,000 Shares will amount to a total of HK\$3,232.26.

The Offer Price is expected to be determined by our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date. If, for any reason, our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price on or before Friday, June 24, 2011, the Global Offering will not proceed and will lapse. If the Offer Price, as finally determined in the manner as set out below, is lower than the maximum Offer Price of HK\$1.60 per Offer Share, appropriate refund payments will be made. Further details in this regard are set out in “How to Apply for Hong Kong Offer Shares” in this prospectus. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

If, based on the level of interests expressed by prospective professional, institutional and/or other investors during the book-building process and with the consent of our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder), the Sole Global Coordinator (for itself and on behalf of the Underwriters) thinks it is appropriate (for instance, if the level of interests is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications. In such case, we will, as soon as practicable following the decision to make such reduction, and in any event no later than the morning of the last day for lodging applications under the Hong Kong Public Offer, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.chinafiberoptic.com](http://www.chinafiberoptic.com), notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction.

In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction of the indicative Offer Price range in the manner set out above, the Offer Price, if agreed upon with our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Offer Price, the indication of level of interest in the International Offering, the level of the applications, the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offer and the results of allocations under the Hong Kong Public Offer are expected to be made available in a variety of channels in the manner described in the paragraph headed “How to Apply for Hong Kong Offer Shares – Results of allocations” in this prospectus.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### CONDITIONS

Acceptance of all applications for the Global Offering will be conditional upon:

- (i) the Listing Committee granting the approval of the listing of, and permission to deal in the Shares (including any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may fall to be issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined and the execution and delivery of the Price Determination Agreement on or about the Price Determination Date; and
- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Sole Global Coordinator for itself and on behalf of the Underwriters) and not being terminated in accordance with their terms or otherwise,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our company (for itself and on behalf of the Selling Shareholders and the Over-allotment Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Friday, June 24, 2011, the Global Offering will not become unconditional and will lapse.

The consummation of the Hong Kong Public Offer is conditional upon, among other things, the Hong Kong Public Offer and the International Offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse will be published by our company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on our website at [www.chinafiberoptic.com](http://www.chinafiberoptic.com), on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section "How to apply for Hong Kong Offer Shares" in this prospectus. In the meantime, such monies will be held in separate bank accounts with the receiving bankers or other licensed bank(s) in Hong Kong.

### OFFER MECHANISM – BASIS OF ALLOCATION OF SHARES

#### The Global Offering

The Global Offering consists of the International Offering and the Hong Kong Public Offer. The 406,000,000 Offer Shares initially offered under the Global Offering will comprise (i) 365,400,000 Shares being offered under the International Offering (comprising 259,400,000 new Shares and 106,000,000 Sale Shares), and (ii) 40,600,000 new Shares being offered under the Hong Kong Public Offer. The 406,000,000 Offer Shares being offered under the Global Offering will represent

---

## STRUCTURE OF THE GLOBAL OFFERING

---

33.8% of the share capital of our company immediately after completion of the Global Offering but without taking into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may fall to be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme.

The Offer Shares to be offered in the Hong Kong Public Offer and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

The levels of indication of interest in the International Offering and the basis of allotment and the levels of applications in the Hong Kong Public Offer are expected to be available in a variety of channels in the manner described in the paragraph headed “How to Apply for Hong Kong Offer Shares – Results of Allocations” in this prospectus.

### **Hong Kong Public Offer**

Our company is initially offering 40,600,000 new Shares, representing 10% of the total number of Offer Shares initially being offered in the Global Offering, for subscription by way of a Hong Kong public offer in Hong Kong, subject to the reallocation of Shares between the International Offering and the Hong Kong Public Offer. The Hong Kong Offer Shares are being offered at the Offer Price. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters, subject to the terms and conditions of the Hong Kong Underwriting Agreement.

The total number of Shares available for subscription under the Hong Kong Public Offer (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription amount of HK\$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription amount of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy, and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool are liable to be rejected. Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he has been or will be placed or allocated Offer Shares under the International Offering.

Allocation of Shares to applicants under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for, but, subject to that (and in accordance with the allocation of Hong Kong Offer Shares in pool A and pool B

---

## STRUCTURE OF THE GLOBAL OFFERING

---

described below), will be made on an equitable basis, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The allocation of the Shares between the International Offering and the Hong Kong Public Offer is subject to adjustment under the Listing Rules.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Offering, so that the total number of Shares available for subscription under the Hong Kong Public Offer will increase to 121,800,000 Shares, representing 30% of the Shares initially available for subscription under the Global Offering.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the International Offering will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offer will be 162,400,000 Shares, representing 40% of the Shares initially available for subscription under the Global Offering.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the International Offering will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offer will increase to 203,000,000 Shares, representing 50% of the Shares initially available for subscription under the Global Offering. In each such case, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Shares allocated to the International Offering will be correspondingly reduced.

### **International Offering**

Our company is initially offering 259,400,000 new Shares and the Selling Shareholders are offering 106,000,000 Sales Shares for sale, representing 90% of the total number of Shares initially being offered in the Global Offering (subject to the Over-allotment Option), for subscription by way of the International Offering, subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offer. The International Offering is fully underwritten by the International Underwriters, subject to the terms and conditions of the International Underwriting Agreement.

The International Underwriters are soliciting from prospective professional, institutional investors and/or other investors indications of interest in acquiring International Offer Shares in the International Offering. Prospective professional, institutional investors and/or other investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. In Hong Kong, individual retail investors should apply for Shares in the Hong Kong Public Offer, as individual retail investors applying for International Offer Shares, including individual retail investors applying through banks and other institutions, will not be allocated any International Offer Shares.



---

## STRUCTURE OF THE GLOBAL OFFERING

---

Allocation of the International Offer Shares pursuant to the International Offering is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of us and our Shareholders as a whole.

The International Underwriters or selling agents nominated by the International Underwriters shall, on our behalf, conditionally place the International Offer Shares with professional, institutional and/or other investors in Hong Kong and other regions. The International Offering shall be subject to the Global Offering restrictions set out under the section “Information about this Prospectus and the Global Offering”.

The International Offering is conditional on the same conditions as set out in the section “– Conditions” above. The total number of International Offer Shares to be allotted and issued or sold and transferred pursuant to the International Offering may change as a result of the clawback arrangement referred to in the section “– The Hong Kong Public Offer” above, the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant application under the Hong Kong Public Offer and to ensure that such investor is excluded from any application for the Offer Shares under the Hong Kong Public Offer.

In connection with the Global Offering, the Sole Global Coordinator or any person acting for it may over-allocate up to and not more than 60,900,000 additional Shares and cover such over-allocation by, among other methods, making purchases in the secondary market at prices that do not exceed the Offer Price or exercising the Over-allotment Option in full or in part, or through the Stock Borrowing Agreement or a combination of these means.

### **OVER-ALLOTMENT AND STABILIZATION**

#### **Over-allotment Option**

In connection with the Global Offering, we are expected to grant to the Sole Global Coordinator the Over-allotment Option, which will be exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, we may be required to allot and issue up to 24,900,000 additional new Shares and the Over-allotment Selling Shareholder to sell up to 36,000,000 additional Shares, at the Offer Price, to an aggregate of 60,900,000 additional Shares, representing 15% of the total number of Offer Shares initially available under the Global Offering, in connection with over-allocation in the International Offering, if any, subject to the same terms and conditions as the other Offer Shares. The Sole Global Coordinator may also cover in the International Offering by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and the exercise, in part or in full, of the Over-allotment Option. The number of Shares that may be over-allocated will not exceed the maximum number of Shares that may be issued under the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, on



---

## STRUCTURE OF THE GLOBAL OFFERING

---

completion of the Global Offering but without taking into account any Shares which may fall to be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme, the Offer Shares will represent 38.12% of our enlarged issued share capital. In the event that the Over-allotment Option is exercised, a press announcement will be made.

### **Stabilization Action**

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market during a specified period of time to minimize and, if possible, prevent any decline in the market price of the securities. In Hong Kong, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, BOCI as the Stabilizing Manager, its affiliates or any person acting for it, may over-allocate or effect transactions with a view to stabilizing and maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period commencing on the Listing Date. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer.

If stabilizing transactions are effected in connection with the Global Offering, these will be at the absolute discretion of the Sole Global Coordinator and will be effected in accordance with the laws, rules and regulations in place in Hong Kong on stabilization. In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules, Chapter 571W of the Laws of Hong Kong. Stabilizing actions which the Stabilizing Manager is permitted to take in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules include: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, its affiliates or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer; after this date, when no further stabilizing action may be taken, demand for the Shares, and therefore their market price, could fall;

---

## STRUCTURE OF THE GLOBAL OFFERING

---

- the market price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

An announcement will be made to the public within seven days after the expiration of the stabilizing period as required under the Securities and Futures (Price Stabilizing) Rules.

### STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilizing Manager, its affiliates or any person acting for it, may choose to borrow up to 60,900,000 Shares from Kemy, one of our Controlling Shareholders, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement or to acquire Shares from other sources. The stock borrowing arrangement under the Stock Borrowing Agreement will comply with the requirements set out in Rule 10.07(3) of the Listing Rules, such that it will not be subject to the restrictions of Rule 10.07(1) of the Listing Rules. Rule 10.07(3) of the Listing Rules requires that:

- the Stock Borrowing Agreement will only be effected by the Stabilizing Manager, its affiliates or any person acting for it for settlement of over-allocations in the International Offering and solely covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Kemy will be limited to the maximum number of Shares which may be issued or sold upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Kemy within the third Business Day, following the earlier of (i) the last day on the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Kemy in relation to the Stock Borrowing Agreement.

### LISTING ON ANY OTHER STOCK EXCHANGE

The directors of our company are not considering any listing of our company on any other overseas stock exchange. We have not submitted any application nor obtained any approval for the listing of the Shares on any other overseas stock exchange.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### WHO CAN APPLY FOR HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares available for subscription by the public if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a United States person (as defined in Regulation S), or a legal or natural person of the PRC (except qualified domestic institutional investors).

If the applicant is a firm, the application must be in the name(s) of the individual member(s), not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a duly authorized attorney, the Sole Global Coordinator (or any of its agent or nominee) may accept it at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

Our company (or our agents or nominees), the Sole Global Coordinator (as agents for our company), the designated **White Form eIPO** Service Provider (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

### CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form;
- applying through the **White Form eIPO** service by submitting an electronic application to the **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

You or your joint applicant(s) may only make one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated **White Form eIPO** Service Provider (individual applicant only).

### WHICH APPLICATION CHANNEL YOU SHOULD USE

#### (a) **WHITE** Application Forms

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### (b) **White Form eIPO**

Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **White Form eIPO** service by submitting an application online through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). In addition to any other requirements, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO**. Use the **White Form eIPO** service if you want the Shares to be registered in your own name.

### (c) **YELLOW Application Forms**

Use a **YELLOW** Application form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

### (d) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **YELLOW** Application Form, you may **electronically instruct** HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

## WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, June 16, 2011 until 12:00 noon on Tuesday, June 21, 2011 from:

### **Any of the Following Addresses of the Hong Kong Underwriters**

BOCI Asia Limited	26th Floor, Bank of China Tower 1 Garden Road, Central Hong Kong
Essence International Financial Holdings Limited	39 Floor, One Exchange Square Central, Hong Kong
Fulbright Securities Limited	Suites 3212-16, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
KGI Capital Asia Limited	41 Floor, Central Plaza, 18 Harbour Road Wanchai, Hong Kong
Kingsway Financial Services Group Limited	5/F, Hutchison House, 10 Harcourt Road Central, Hong Kong

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

or any of the following branches of

(i) **Bank of China (Hong Kong) Limited:**

<b>Branch Name</b>	<b>Branch Address</b>
<b>Hong Kong Island</b>	
Bank of China Tower Branch	3/F, 1 Garden Road
Central District (Wing On House) Branch	71 Des Voeux Road Central
Sheung Wan Branch	252 Des Voeux Road Central
King's Road Branch	131-133 King's Road, North Point
Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan
<b>Kowloon</b>	
Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
Prince Edward Branch	774 Nathan Road, Kowloon
Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
<b>New Territories</b>	
Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan
Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan

(ii) **Bank of Communications Co., Ltd. Hong Kong Branch**

<b>Branch Name</b>	<b>Branch Address</b>
<b>Hong Kong Island</b>	
Hong Kong Branch	20 Pedder Street, Central
Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
Quarry Bay Sub-Branch	G/F., 981 C, King's Road
Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
Chaiwan Sub-Branch	G/F., 121-121A Wan Tsui Road
<b>Kowloon</b>	
Mongkok Sub-Branch	Shops A&B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road
Wong Tai Sin Sub-Branch	Shops 127-129, 1/F., Lung Cheung Plaza, 136 Lung Cheung Road
Ngau Tau Kok Sub-Branch	Shop G1 & G2, G/F., Phase I, Amoy Plaza, 77 Ngau Tau Kok Road
<b>New Territories</b>	
Market Street Sub-Branch	G/F., 53 Market Street, Tsuen Wan
Tseung Kwan O Sub-Branch	Shop 253-255, Metro City Shopping Arcade, Phase I

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- (b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, June 16, 2011 until 12:00 noon on Tuesday, June 21, 2011 from:
- the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
  - your broker, who may have **YELLOW** Application Forms and this prospectus available.

### WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

(a) **WHITE or YELLOW Application Forms**

Completed **WHITE** or **YELLOW** Application Forms, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Tuesday, June 21, 2011, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “– Effect of bad weather conditions on the opening of the application lists” below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed under the paragraph headed “– Where to collect the Application Forms” in this section at the following times:

<b>Thursday, June 16, 2011</b>	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Friday, June 17, 2011</b>	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Saturday, June 18, 2011</b>	<b>9:00 a.m. to 1:00 p.m.</b>
<b>Monday, June 20, 2011</b>	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Tuesday, June 21, 2011</b>	<b>9:00 a.m. to 12:00 noon</b>

(b) **White Form eIPO**

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) from 9:00 a.m. on Thursday, June 16, 2011 until 11:30 a.m. on Tuesday, June 21, 2011 or such later time as described under the paragraph below headed “– How to Apply through the White Form eIPO service – Effect of bad weather conditions on the last application day” (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 21, 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “How to Apply for Hong Kong Offer Shares – How to Apply through the White Form eIPO service – Effect of bad weather conditions on the last application day”. You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### (c) Electronic applications instructions to HKSCC

CCASS Clearing Participants and CCASS Custodian Participants should input **electronic application instructions** via CCASS at the following times:

<b>Thursday, June 16, 2011</b>	<b>9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Friday, June 17, 2011</b>	<b>8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Saturday, June 18, 2011</b>	<b>8:00 a.m. to 1:00 p.m.<sup>(1)</sup></b>
<b>Monday, June 20, 2011</b>	<b>8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Tuesday, June 21, 2011</b>	<b>8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

*Note (1):* These times are subject to such changes as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, June 16, 2011 until 12:00 noon on Tuesday, June 21, 2011 (24 hours daily, except the last application date).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Tuesday, June 21, 2011 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “– Effect of bad weather conditions on the opening of the application lists” below.

### (d) Application Lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Tuesday, June 21, 2011, except as provided in the sub-paragraph headed “– Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

### (e) Effect of bad weather conditions on the opening of the application lists

The application lists will be opened between 11:45 a.m. and 12:00 noon on Tuesday, June 21, 2011, subject to weather conditions. The application lists will not be open in relation to the Hong Kong Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 21, 2011, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain a **WHITE** or **YELLOW** Application Form.
- (b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.
- (c) Decide how many Hong Kong Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$1.60 per Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for numbers of shares applied for up to 20,300,000 Offer Shares.
- (d) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorized attorney, our company and the Sole Global Coordinator (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- (e) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form. If you pay by cheque, the cheque must:
- be in Hong Kong dollars;
  - not be post-dated;
  - be drawn on your Hong Kong dollar bank account in Hong Kong;
  - show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
  - be made payable to "Bank of China (Hong Kong) Nominees Limited – China Fiber Optic Public Offer"; and
  - be crossed "Account Payee Only".

Your application may be rejected if your cheque does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorized by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- be in Hong Kong dollars;
- not be post-dated;
- be made payable to “Bank of China (Hong Kong) Nominees Limited – China Fiber Optic Public Offer”; and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

- (f) If you are applying for Shares using a **WHITE** or **YELLOW** Application Form, you should lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 3(a) and 4(a) above.
- (g) The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Tuesday, June 21, 2011. Our company will not give you a receipt for your payment. Our company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificate(s) and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.
- (h) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed “– How many applications you can make” in this section.
- (i) In order for the **YELLOW** Application Forms to be valid:
- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
    - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
  - If you are applying as an individual CCASS Investor Participant:
    - you must fill in your full name and your Hong Kong Identity Card number; and
    - you must insert your CCASS Participant I.D. in the appropriate box.
  - If you are applying as a joint individual CCASS Investor Participant:
    - you must insert all joint CCASS Investor Participants’ names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
    - you must insert your CCASS Participant I.D. in the appropriate box.
  - If you are applying as a corporate CCASS Investor Participant:
    - you must insert your company name and your company’s Hong Kong business registration number; and

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company's name) in the appropriate box.

Incorrect or incomplete details of the CCASS Participant or CCASS Participant I.D. or other similar matters may render the application invalid.

- (j) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

### HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected.

If the Offer Price as finally determined is less than HK\$1.60 per Offer Share, appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful or partially successful applications, without interest. Details of the procedure for refunds are set out below in the paragraph headed "– Dispatch/Collection of Share Certificates and Refund Monies" below.

### HOW TO APPLY THROUGH THE WHITE FORM eIPO SERVICE

- (a) If you are an individual and meet the criteria set out above in relation to applying for Hong Kong Offer Shares through the **White Form eIPO** service in the paragraph above headed "– Who can apply for the Hong Kong Offer Shares," you may apply through the **White Form eIPO** service by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through the **White Form eIPO** service the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to us.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service at **www.eipo.com.hk**, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to us and our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- (f) You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Thursday June 16, 2011 until 11:30 a.m. on Tuesday, June 21, 2011 or such later time as described under the paragraph below headed “– Effect of bad weather conditions on the last application day” (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 21, 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph below headed “– Effect of bad weather conditions on the last application day”.
- (g) You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You should make payment for your application made through the **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Tuesday, June 21, 2011, or such later time as described under the paragraph below headed “– Effects of bad weather conditions on the last application day” in this prospectus, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

### Effect of bad weather conditions on the last application day

The latest time for submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service will be 11:30 a.m., and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 21, 2011, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 21, 2011, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

### Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Hong Kong Public Offer Shares, the applicant shall be deemed to have accepted the following conditions: That the applicant:

- **Applies** for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and **White Form eIPO** application subject to the Articles;
- **Undertakes** and agrees to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **Declares** that such application is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;

- **Undertakes** and **confirms** that the applicant or the person for whose benefit the applicant is applying has not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any International Offering Shares, nor otherwise participate in the International Offering;
- **Understands** that this declaration and representation will be relied upon by us, the directors of our company and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;
- **Authorizes** our company (or our agents) to place the applicant's name on our register of members as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set out in this prospectus and the **White Form eIPO** application) to send any share certificates by ordinary post at the applicant's own risk to the address given on the **White Form eIPO** application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any Share certificate(s) in person in accordance with the procedures prescribed in the **White Form eIPO** application and this prospectus;
- **Has read** the terms and conditions and application procedures set out on in the **White Form eIPO** application, this prospectus and the **White Form eIPO** website at **www.eipo.com.hk** and agrees to be bound by them;
- **Represents, warrants** and **undertakes** that (i) the applicant or any persons for whose benefit the applicant is applying is outside the United States when completing and submitting the **White Form eIPO** application and is not a U.S. person (as defined in Regulation S under the U.S. Securities Act, as amended), or is a person described in paragraph (h)(3) of Rule 902 of Regulation S under the U.S. Securities Act as amended, and (ii) the allotment of or application for the Hong Kong Offer Shares to or by the applicant or the persons for whose benefit this application is made would not require us, the Sole Global Coordinator or any of the Underwriters to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and
- **Agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the laws of Hong Kong.

### Supplemental information

If any supplement to this prospectus is issued, applicant(s) who have already submitted an **electronic application instruction** through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee for and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- instruct and authorize us (or our agents or nominees) or the Sole Global Coordinator (or its agents or nominees) as agent for us to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the **White Form eIPO** application;
- confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- agree that we, the Selling Shareholders, the Over-allotment Selling Shareholder and our directors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) warrant that such application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service;
- (if you are an agent or nominee for another person) warrant reasonable enquiries have been made of that other person that such application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorized to submit such application as that other person's agent or nominee;
- undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Hong Kong Offer Shares;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- agree to disclose to us, our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, our receiving bankers, the Selling Shareholders, the Over-allotment Selling Shareholder, the Sole Global Coordinator and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made this application;
- agree with us and each of our shareholders, and we agree with each of our shareholders, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles;



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- agree with us and each of our shareholders that our Shares are freely transferable by the holders thereof;
- authorize us to enter into a contract on your behalf with each of our directors and officers whereby each such director and officer undertakes to observe and comply with his or her obligations of our shareholders as stipulated in the Memorandum of Association and the Articles;
- represent, warrant and undertake that you are not, and none of the other person(s) (if any) for whose benefit you are applying, are a U.S. person (as defined in Regulation S);
- represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus, the **White Form eIPO** application and the **White Form eIPO** website at **www.eipo.com.hk** and agree to be bound by them;
- undertake and agree to accept the Shares applied for, or any lesser number allocated to you under your application; and
- if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of our company, the Selling Shareholders, the Over-allotment Selling Shareholder, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus, the **White Form eIPO** application and the **White Form eIPO** website at **www.eipo.com.hk**.

Our company, the Selling Shareholders, the Over-allotment Selling Shareholder, the Sole Global Coordinator, the Underwriters and their respective directors, officers, employees, partners, agents, advisors, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

### **Additional information**

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at **www.eipo.com.hk**.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### Warning

The application for Hong Kong Offer Shares through the **White Form eIPO** service at **www.eipo.com.hk** is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our company, the Selling Shareholders, the Over-allotment Selling Shareholder, our directors, the Sole Global Coordinator, the Underwriters and **White Form eIPO** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service at **www.eipo.com.hk** will be submitted to us or that you will be allotted any Hong Kong Offer Shares.

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “**China Fiber Optic Network System Group Ltd.**” **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

**Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your electronic application instructions.** In the event that you have problems connecting to the designated website for the **White Form eIPO**, you should submit a **WHITE** application form. However, once you have submitted electronic application instructions and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** application form. Please see the paragraph headed “How many applications you can make” in this section.

### HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling **2979 7888** or CCASS Internet System at **https://ip.ccass.com** (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Hong Kong Securities Clearing Company Limited  
Customer Service Centre  
2/F Infinitus Plaza,  
199 Des Voeux Road Central, Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- (d) You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our company and our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.
- (e) You may give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:
- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
- (ii) HKSCC Nominees does all the things on behalf of each of such persons:
- **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
  - **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
  - **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up or indicated an interest for, any International Offer Shares, nor otherwise participated in the International Offering;
  - (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
  - (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that person is duly authorized to give those instructions as that other person's agent;
  - **understands** that the above declaration will be relied upon by us, the Selling Shareholders, the Over-allotment Selling Shareholder, our directors and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if he makes a false declaration;
  - **authorizes** us to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus;
- **agrees** that we, the Selling Shareholders, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to us, the Sole Global Coordinator, our Hong Kong Share Registrar, receiving bankers and/or their respective agents and any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the expiration of the fifth day after the closing of the application lists or such later date as the application lists may close as described under "Effect of bad weather on the opening of the application lists" below, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of we agreeing that it will not offer any Hong Kong Offer Shares to any person before the expiration of the fifth day after the closing of the application lists except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under which section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by us;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- **agrees** with us, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies Ordinance and the Memorandum of Association and the Articles;
  - **agrees** with us (for ourselves and for the benefit of each of our shareholders) that the shares are freely transferable by the holders thereof; and
  - **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.
- (h) For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The section of the Application Form entitled "Personal data" applies to any personal data held by the Sole Sponsor, us, the Selling Shareholders and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.
- (j) For the avoidance of doubt, our company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

### Warning

**Application for Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our company, the Selling Shareholders, the Over-allotment Selling Shareholder, the Sole Global Coordinator and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.**

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) submit the **WHITE** or **YELLOW** Application Form (as appropriate); or
- (b) go to HKSCC's Customer Service Centre to complete an application instruction input request form before **12:00 noon on Tuesday, June 21, 2011** or such later time as described under the sub-paragraph headed “– Effect of bad weather conditions on the opening of the application lists” above.

### RESULTS OF ALLOCATIONS

Our company expects to publish the announcement on the level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Offering, the basis of allotment of the Hong Kong Offer Shares and the Offer Price in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Monday, June 27, 2011. Results of allocation in the Hong Kong Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where supplied) and the number of Hong Kong Offer Shares successfully applied for under **WHITE Application Forms**, or **YELLOW Application Forms** or the designed **White Form eIPO** Service Provider through the designated White Form eIPO website or by giving electronic application instructions to HKSCC via CCASS will be made available at the times and dates and in the manner specified below:

- on our website at **www.chinafiberoptic.com** and the website of the Stock Exchange at **www.hkexnews.hk** from Monday, June 27, 2011 onward;
- on our Hong Kong Public Offer results of allocations website at **www.iporeresults.com.hk** on a 24-hour basis from 8:00 a.m. on Monday, June 27, 2011 to 12:00 midnight on Sunday, July 3, 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application to search for his/her/its own allocation result;
- from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of the Hong Kong Offer Shares allocated to them, if any, by calling **2862 8669** between 9:00 a.m. and 10:00 p.m. from Monday, June 27, 2011 to Thursday, June 30, 2011;
- from special allocation results booklets which set out the results of allocations will be available for inspection during opening hours of the designated branches of the receiving banker of the Hong Kong Public Offer from Monday, June 27, 2011 to Wednesday, June 29, 2011 at the addresses set forth under the paragraph headed “Where to collect the prospectuses and the Application Forms” in this section above.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Hong Kong Offer Shares only if:

- You are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** Application Form marked “For nominees” you must include:
  - an account number; or
  - some other identification code for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.

Otherwise, multiple or suspected multiple applications are liable to be rejected.

- It will be a term and condition of all applications that by completing and delivering an Application Form or giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, you:
  - (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider;
  - (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, and that you are duly authorized to sign the Application Form (where applicable) as that other person’s agent.

(b) Save as referred to (a) above, all of your applications for the Hong Kong Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider; or
- apply both (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider; or



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider for more than 50% of the Hong Kong Offer Shares being initially available to the public as referred to under the section headed “Structure of the Global Offering” in this prospectus; or
  - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any Hong Kong Offer Shares under the International Offering.
- (c) All of your applications for the Hong Kong Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (i) the principal business of that company is dealing in securities; and
  - (ii) you exercise statutory control over that company,
- then the application will be deemed to be made for your benefit.
- Unlisted company** means a company with no equity securities listed on the Stock Exchange.
- Statutory control** in relation to a company means you:
- (i) control the composition of the board of directors of that company; or
  - (ii) control more than half of the voting power of that company; or
  - (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profit or capital).
- (d) If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at **www.eipo.com.hk** and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### CIRCUMSTANCES IN WHICH YOU MAY NOT BE ALLOTTED HONG KONG OFFER SHARES

You may not be allocated Hong Kong Offer Shares for any of the following reasons:

**(a) If your application is revoked:**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before July 16, 2011. This agreement will take effect as a collateral contract with our company, and will become binding when you lodge your application form or submit your **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider. This collateral contract will be in consideration of our company agreeing that it will not offer any Hong Kong Offer Shares to any person before July 16, 2011 except by means of one of the procedures referred to in this prospectus.

However, your application or the application made by HKSCC Nominees on your behalf may only be revoked before July 16, 2011 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(b) If the allocation of the Hong Kong Offer Shares is void:**

Your allocation of the Hong Kong Offer Shares (and the allocation to HKSCC Nominees, as the case may be) will be void if the Listing Committee does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or
- (ii) within a longer period of up to six weeks if the Listing Committee notifies our company of that longer period within three weeks of the closing of the application lists.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

**(c) If you make applications under the Hong Kong Public Offer as well as under the International Offering:**

By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider, you agree not to apply for Offer Shares under the International Offering. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offer from investors who have received International Offering Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Offer Shares under the Hong Kong Public Offer.

**(d) If our company (or our agents or nominees), the Sole Global Coordinator (as agents for our company) or the designated White Form eIPO Service Provider (where applicable) or their respective agents or nominees exercise their discretion to reject your application:**

Our company (or our agents or nominees), the Sole Global Coordinator (as agents for our company), the designated **White Form eIPO** Service Provider (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

**(e) Your application may be rejected if:**

- (i) your application is a multiple or a suspected multiple application;
- (ii) your Application Form is not completed in accordance with the instructions as stated therein (if you apply by an Application Form);
- (iii) your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- (iv) you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Offer Shares under the International Offering;
- (v) your application is for more than 100% of the Hong Kong Offer Shares in either pool A or pool B being initially available under the Hong Kong Public Offer (i.e., 20,300,000 Hong Kong Offer Shares) as referred to under the section headed "Structure of the Global Offering" in this prospectus; or
- (vi) any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms of such agreements or otherwise.

### **DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES**

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$1.60 per Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the paragraph headed "Conditions" under the section headed "Structure of the Global Offering" or if any application is

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application:

- (a) for applications on **WHITE** Application Forms and through the **White Form eIPO** service:
  - (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or
  - (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms) share certificates for the Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum Offer Price per Share paid on application in the event that the Offer Price is less than the Offer Price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the Offer Price per Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms or to the designated **White Form eIPO** Service Provider are expected to be posted on Monday, June 27, 2011. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the paragraph headed "Grounds for termination" under the section headed "Underwriting" has not been exercised.

**(a) if you apply using a WHITE Application Form:**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have indicated your intention in your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 27, 2011 or such other date as notified by us in the newspapers as the date of collection/dispatch of e-Refund Payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Monday, June 27, 2011, by ordinary post and at your own risk.

**(b) If you apply using a YELLOW Application Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on Monday, June 27, 2011, by ordinary post and at your own risk.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Monday, June 27, 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner as described in the paragraph headed "How to Apply for Hong Kong Offer Shares – Results of Allocations" in this prospectus on Monday, June 27, 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, June 27, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

**(c) If you apply through White Form eIPO:**

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 27, 2011, or such other date as notified by our company in the newspapers as the date of dispatch/collection of e-Refund payment instructions/refund cheques/share certificates.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** on Monday, June 27, 2011, by ordinary post and at your own risk.

If you paid the application monies from a single bank account, e-Refund payment instructions (if any) will be dispatched to the application payment account on Monday, June 27, 2011. If you used multi-bank accounts to pay the application monies, the refund cheque (if any) will be dispatched to you on Monday, June 27, 2011.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

(d) **If you apply by giving electronic application instructions to HKSCC**

***Allocation of Hong Kong Offer Shares***

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

***Deposit of share certificates into CCASS and Refund of application monies***

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Monday, June 27, 2011, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification number (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner as described in the paragraph headed “How to Apply for Hong Kong Offer Shares – Results of Allocations” in this prospectus on Monday, June 27, 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, June 27, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Monday, June 27, 2011. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Offer Price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, June 27, 2011. No interest will be paid thereon.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, June 28, 2011. Shares will be traded on the Stock Exchange in board lots of 2,000 each. The Stock Exchange stock code for the Shares is 3777.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.





18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
Tel: +852 2846 9888  
Fax: +852 2868 4432  
www.ey.com

June 16, 2011

The Directors  
China Fiber Optic Network System Group Ltd.  
BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information of China Fiber Optic Network System Group Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2008, 2009 and 2010 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as of December 31, 2008, 2009 and 2010, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated June 16, 2011 (the "Prospectus") in connection with the proposed listing of the shares of the Company (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on August 7, 2006 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised from time to time) of the Cayman Islands with the name of Sapphire Holdings, Inc. The name of the Company was subsequently changed to its present name on February 26, 2010.

The principal activity of the Company is investment holding. The Group is principally engaged in the production and sale of fiber optic patch cords and other accessories.

As of the date of this report, the Company had direct interests in the following subsidiaries, the particulars of which are set out below:

Name	Place and date of establishment or incorporation	Nominal value of issued ordinary shares/registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Hebei Sapphire Communication Equipment Co., Ltd. <sup>(1)</sup> 河北四方通信設備有限公司 ("Sifang Telecom")	PRC April 9, 1998	RMB116,631,524	100	Manufacture and sale of fiber optic patch cords and other accessories
Pacific Gain Technologies Limited <sup>(2)</sup> 恒裕科技有限公司 ("Pacific Gain Technologies")	Hong Kong June 20, 2008	HK\$1	100	Exporter of fiber optic patch cords

*Notes:*

- (1) The statutory financial statements for the years ended December 31, 2008, 2009 and 2010 were audited by Shijiazhuang Cai Xin Certified Public Accountants Co., Ltd. (石家莊財信會計師事務所有限責任公司), certified public accountants registered in the PRC.
- (2) The statutory financial statements for the period from June 20, 2008 to March 31, 2010 were audited by CC Kwong & Company, certified public accountants registered in Hong Kong. Pacific Gain Technologies has adopted March 31 as its financial year end date. For the preparation of this Financial Information, the Group has adopted December 31 as the Group's financial year end.

The English names of the auditors registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have any official English name.

As of the date of this report, no audited financial statements have been prepared for the Company since the date of its incorporation as there is no statutory requirement for the Company to obtain audited financial statements. The statutory audited financial statements of a subsidiary established in the People's Republic of China (the "PRC" or "Mainland China") were prepared in accordance with the generally accepted accounting principles and the relevant financial regulations of the PRC ("PRC GAAP"). For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the companies now comprising the Group for the Relevant Periods (the "IFRS Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The IFRS Financial Statements were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the IFRS Financial Statements. No adjustments were considered necessary by us to the IFRS Financial Statements in preparing our report for inclusion in the Prospectus.

**DIRECTORS' RESPONSIBILITY**

The Directors are responsible for the preparation of the IFRS Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

It is our responsibility to form an independent opinion based on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

**OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as of December 31, 2008, 2009 and 2010, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

## I. FINANCIAL INFORMATION

## Consolidated statements of comprehensive income

	Notes	Year ended December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
<b>Revenue</b>	4	334,487	645,650	838,138
Cost of sales		<u>(175,311)</u>	<u>(445,322)</u>	<u>(570,174)</u>
<b>Gross profit</b>		159,176	200,328	267,964
Other income	5	1,140	1,447	1,806
Fair value losses on convertible preference shares	25	(38,488)	–	–
Selling and distribution costs		(12,849)	(5,077)	(7,904)
Administrative expenses		(14,888)	(26,258)	(34,098)
Other operating expenses		(266)	(91)	(56)
Finance costs	6	<u>(6,945)</u>	<u>(10,967)</u>	<u>(15,851)</u>
Profit before tax	6	86,880	159,382	211,861
Income tax expense	8	<u>–</u>	<u>(20,299)</u>	<u>(29,990)</u>
<b>PROFIT FOR THE YEAR</b>		<u>86,880</u>	<u>139,083</u>	<u>181,871</u>
<b>OTHER COMPREHENSIVE INCOME:</b>				
Foreign currency translation		<u>5,761</u>	<u>(162)</u>	<u>(1,355)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>92,641</u>	<u>138,921</u>	<u>180,516</u>
Earnings per share attributable to ordinary equity holders of the Company:				
Basic	9	<u>RMB69.92</u>	<u>RMB89.19</u>	<u>RMB116.62</u>
Diluted	9	<u>RMB69.92</u>	<u>RMB89.19</u>	<u>RMB116.62</u>

Details of the dividends payable and proposed during the Relevant Periods are disclosed in Note 28 to Financial Information.

## Consolidated statements of financial position

	Notes	December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	10	364,523	395,388	471,875
Prepaid land lease payments	11	697	25,304	26,214
Payments in advance	12	11,500	–	23,200
Goodwill	14	15,563	15,563	15,563
Deferred tax assets	15	–	984	1,219
Total non-current assets		392,283	437,239	538,071
<b>CURRENT ASSETS</b>				
Inventories	16	9,718	10,636	25,028
Trade receivables	17	92,185	386,463	563,668
Prepayments, deposits and other receivables	18	570	7,958	10,925
Pledged bank deposits	19	–	–	1,200
Cash and cash equivalents	19	37,206	106,125	127,595
Total current assets		139,679	511,182	728,416
<b>CURRENT LIABILITIES</b>				
Due to a related party	20	474	474	–
Trade payables	21	14,087	63,897	19,546
Other payables and accruals	22	23,903	103,835	189,400
Tax payable		–	20,396	47,570
Dividend payable	28	–	–	51,206
Interest-bearing bank loans	23	80,000	206,000	273,500
Total current liabilities		118,464	394,602	581,222
NET CURRENT ASSETS		21,215	116,580	147,194
TOTAL ASSETS LESS CURRENT LIABILITIES		413,498	553,819	685,265
<b>NON-CURRENT LIABILITIES</b>				
Deferred income	24	4,300	5,700	5,300
Deferred tax liabilities	15	–	–	2,536
Total non-current liabilities		4,300	5,700	7,836
Net assets		409,198	548,119	677,429
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Issued capital	26	12	12	12
Reserves		409,186	548,107	677,417
Total equity		409,198	548,119	677,429

## Consolidated statements of changes in equity

	Issued capital RMB'000 Note 26	Share premium* RMB'000 Note 27(a)	Statutory reserve fund* RMB'000 Note 27(b)	Special reserve* RMB'000 Note 27(c)	Capital contribution reserve* RMB'000	Foreign translation reserve* RMB'000	Retained earnings* RMB'000	Total RMB'000
January 1, 2008	10	36,266	9,137	-	-	1,955	63,828	111,196
Profit for the year	-	-	-	-	-	-	86,880	86,880
Other comprehensive income for the year:								
Exchange difference on foreign currency translation	-	-	-	-	-	5,761	-	5,761
Total comprehensive income for the year	-	-	-	-	-	5,761	86,880	92,641
Issue of shares	-	21,604	-	-	-	-	-	21,604
Transfer from/(to) reserves	-	-	11,685	-	-	-	(11,685)	-
Waiver of former shareholders' loans of Sifang Telecom on debt restructuring	-	-	-	59,906	-	-	-	59,906
Compensation from Kemy (as defined in Note 1 of Section II) for extinguishment of certain liability components of preference shares (Note 25(b))	-	-	-	-	62,825	-	-	62,825
Conversion of convertible preference shares (Notes 25(c) & 26)	2	61,024	-	-	-	-	-	61,026
At December 31, 2008 and January 1, 2009	12	118,894	20,822	59,906	62,825	7,716	139,023	409,198
Profit for the year	-	-	-	-	-	-	139,083	139,083
Other comprehensive income for the year:								
Exchange difference on foreign currency translation	-	-	-	-	-	(162)	-	(162)
Total comprehensive income for the year	-	-	-	-	-	(162)	139,083	138,921
Transfer from/(to) reserves	-	-	10,002	-	-	-	(10,002)	-
At December 31, 2009 and January 1, 2010	12	118,894	30,824	59,906	62,825	7,554	268,104	548,119
Profit for the year	-	-	-	-	-	-	181,871	181,871
Other comprehensive income for the year:								
Exchange difference on foreign currency translation	-	-	-	-	-	(1,355)	-	(1,355)
Total comprehensive income for the year	-	-	-	-	-	(1,355)	181,871	180,516
Transfer from/(to) reserves	-	-	10,834	-	-	-	(10,834)	-
Dividend declared (Note 28)	-	(51,206)	-	-	-	-	-	(51,206)
At December 31, 2010	12	67,688	41,658	59,906	62,825	6,199	439,141	677,429

\* These reserves accounts comprise the consolidated reserves in the consolidated statements of financial position.

## Consolidated statements of cash flows

	Notes	Year ended December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
<b>Cash flows from operating activities</b>				
Profit before tax		86,880	159,382	211,861
Adjustments for:				
Depreciation	6, 10	15,012	24,352	28,758
Amortization of prepaid land lease payments	6, 11	18	312	595
Loss on disposal of items of property, plant and equipment	6	–	64	–
Interest on bank loans	6	5,108	10,026	14,485
Fair value losses on convertible preference shares	6, 25	38,488	–	–
Bank interest income	5	(358)	(144)	(307)
Deferred income released	5, 24	(400)	(400)	(400)
		<u>144,748</u>	<u>193,592</u>	<u>254,992</u>
Decrease/(increase) in inventories		9,482	(918)	(14,392)
Increase in trade receivables		(78,780)	(294,278)	(177,205)
Decrease/(increase) in prepayments, deposits and other receivables		18,803	(7,388)	(2,967)
Increase/(decrease) in trade payables		6,663	49,810	(44,351)
Increase in other payables and accruals		<u>6,086</u>	<u>81,218</u>	<u>92,121</u>
Cash generated from operations		107,002	22,036	108,198
Interest paid		(5,108)	(9,457)	(14,545)
Interest received		358	144	307
Income tax paid		–	(887)	(515)
Net cash flows from operating activities		<u>102,252</u>	<u>11,836</u>	<u>93,445</u>
<b>Cash flows from investing activities</b>				
Purchases of items of property, plant and equipment		(209,470)	(57,136)	(134,941)
Receipts of government grants		800	1,800	–
Additions to prepaid land lease payments		–	(13,419)	(1,505)
Decrease/(increase) in pledged deposits		<u>800</u>	<u>–</u>	<u>(1,200)</u>
Net cash flows used in investing activities		<u>(207,870)</u>	<u>(68,755)</u>	<u>(137,646)</u>

	Notes	Year ended December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares		21,604	–	–
Cash receipts from the former shareholders of Sifang Telecom	27(c)	35,578	–	–
Decrease in an amount due to a related party		–	–	(474)
New bank loans		80,000	206,000	273,500
Repayment of bank loans		(48,000)	(80,000)	(206,000)
Net cash flows from financing activities		<u>89,182</u>	<u>126,000</u>	<u>67,026</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>				
Net foreign exchange difference		(16,436)	69,081	22,825
Cash and cash equivalents at beginning of year		(68)	(162)	(1,355)
		<u>53,710</u>	<u>37,206</u>	<u>106,125</u>
Cash and cash equivalents at end of year		<u><u>37,206</u></u>	<u><u>106,125</u></u>	<u><u>127,595</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	19	<u><u>37,206</u></u>	<u><u>106,125</u></u>	<u><u>127,595</u></u>



## Statements of financial position

		December 31,		
		2008	2009	2010
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>				
Equipment		–	–	63
Investments in subsidiaries	13	81,760	132,008	132,008
Total non-current assets		<u>81,760</u>	<u>132,008</u>	<u>132,071</u>
<b>CURRENT ASSETS</b>				
Due from a subsidiary	13	50,269	13,663	25,713
Prepayments and other receivables	18	–	–	4,517
Dividend receivable	13	–	17,528	–
Cash and cash equivalents	19	114	6,103	13,510
Total current assets		<u>50,383</u>	<u>37,294</u>	<u>43,740</u>
<b>CURRENT LIABILITIES</b>				
Dividend payable	28	–	–	51,206
Other payables		–	–	224
Due to a subsidiary	13	–	–	16,803
Due to a related party	20	474	474	–
Total current liabilities		<u>474</u>	<u>474</u>	<u>68,233</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>49,909</u>	<u>36,820</u>	<u>(24,493)</u>
<b>NET ASSETS</b>		<u>131,669</u>	<u>168,828</u>	<u>107,578</u>
<b>EQUITY</b>				
Issued capital	26	12	12	12
Reserves	27	131,657	168,816	107,566
Total equity		<u>131,669</u>	<u>168,828</u>	<u>107,578</u>

## II. NOTES TO FINANCIAL INFORMATION

### 1 Corporate information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on August 7, 2006 under the Companies Law (2011 Revision) (as consolidated and revised from time to time) of the Cayman Islands with the name of Sapphire Holdings, Inc. The name of the Company was subsequently changed to its present name on February 26, 2010. The registered office of the Company is located at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands.

The Group is principally engaged in the production and sale of fiber optic patch cords and other accessories.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Kemy Holding, Inc. ("Kemy"), which is incorporated in the Cayman Islands.

### 2 Basis of preparation

The Financial Information has been prepared in accordance with the IFRSs, which comprise standards and interpretations approved by the IASB and the International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

All IFRSs that are relevant to the Group's operations and effective for the accounting periods commencing from January 1, 2010, together with the relevant transitional provisions, where permissible, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared on a historical cost convention, except for the convertible preference shares, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all other values are rounded to the nearest thousand except when otherwise indicated.

#### 3.1 Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Financial Information.

IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>1</sup>
IFRS 1 Amendment	Amendments to IFRS 1 <i>First-time Adoption of IFRSs – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>
IAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
IFRIC 14 Amendments	Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> <sup>4</sup>
IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>4</sup>
IAS 12 Amendments	Amendments to IAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> <sup>5</sup>
IFRS 9	<i>Financial Instruments</i> <sup>6</sup>

Apart from the above, the IASB has issued Improvements to IFRSs 2010 in May 2010 which sets out amendments to a numbers of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after January 1, 2011 while the amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after July 1, 2010 although there are separate transitional provisions for each standard or interpretation.

- <sup>1</sup> Effective for annual periods beginning on or after February 1, 2010
- <sup>2</sup> Effective for annual periods beginning on or after July 1, 2010
- <sup>3</sup> Effective for annual periods beginning on or after January 1, 2011
- <sup>4</sup> Effective for annual periods beginning on or after July 1, 2011
- <sup>5</sup> Effective for annual periods beginning on or after January 1, 2012
- <sup>6</sup> Effective for annual periods beginning on or after January 1, 2013

Further information about these changes, which are expected to significantly affect the Group, is as follows:

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significant influenced by the same government. The Group expects to adopt IAS 24 (Revised) from January 1, 2011.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group is not a government-related entity.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirement of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39 while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from January 1, 2013.

*Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt all these amendments from January 1, 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies and additional disclosures, none of these amendments are expected to have a significant financial impact on the Group.

### 3.2 Summary of significant accounting policies

#### ***Basis of consolidation***

The Financial Information includes the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity, and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate.

#### ***Subsidiaries***

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

#### ***Business combinations and goodwill***

##### *Business combinations from January 1, 2010*

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and fair value of the Group's previously held equity interests in the acquiree over the fair value of net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as of December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Business combinations prior to January 1, 2010 but after January 1, 2005*

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to January 1, 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

#### ***Impairment of non-financial assets***

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

#### ***Related parties***

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group or its parent;
- (c) the party is a close member of the family of any individual referred to in (a) or (b); or
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

#### ***Property, plant and equipment and depreciation***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of items of property, plant and equipment are as follows:

Buildings	30 years
Plant and machinery	10-15 years
Office equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### ***Prepaid land lease payments***

Prepaid land lease payments represent the acquisition cost of state-owned land use rights in Mainland China. Prepaid land lease payments are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

***Investments and other financial assets******Initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investment, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

During the Relevant Periods, the Group's financial assets included cash and cash equivalents and pledged bank deposits, and trade and other receivables.

***Subsequent measurement***

The subsequent measurement of loans and receivables as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in "Other Income" in the consolidated statements of comprehensive income. The loss arising from impairment is recognized in the consolidated statements of comprehensive income in "Other operating expenses".

***Derecognition of financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

***Impairment of financial assets***

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred "lose event") and that loss event has an impact on the estimated future cash flows of the financial asset of the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continue to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amounts and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "Other operating expenses" in the consolidated statements of comprehensive income.

**Financial liabilities***Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

During the Relevant Periods, the Group's financial liabilities included trade payables, other payables, an amount due to a related party and interest-bearing bank loans.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing bank loans are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortization is included in "Finance costs" in the consolidated statements of comprehensive income.

*Convertible preference shares*

The convertible preference shares that exhibit characteristics of a liability are recognized as a liability in the statements of financial position, net of transaction costs, if any. On the issuance of convertible preference shares, the fair value of the convertible preference shares is determined using an option pricing model; and this amount is carried as a non-current financial liability at fair value through profit or loss until it is extinguished on conversion.

**Derecognition of financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.



When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

#### ***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously.

#### ***Fair value of financial instruments***

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

#### ***Inventories***

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### ***Cash and cash equivalents***

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

#### ***Income tax***

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Government grants**

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

#### **Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statements of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

**Foreign currencies**

The functional currency of the Company and its subsidiary incorporated outside the PRC is United States Dollars ("US\$"). The functional currency of the PRC subsidiary is RMB. The Financial Information is presented in RMB, which is the Group's presentation currency. That is also the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statements of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into RMB at the exchange rates of ruling at the end of the reporting period and their profit or loss are translated at the weighted average exchange rates for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the foreign translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

**Employee benefits**

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial government in Mainland China. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to profit or loss as they become payable in accordance with the rules of the defined contribution retirement benefit plans.

In addition to the above, the Group also participates in a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employee in Hong Kong. The Company's contributions are capped to HK\$1,000 per month for its employee in Hong Kong and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund.

**3.3 Significant accounting estimates**

The preparation of the Financial Information requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are indicated below:

**(a) Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2008, 2009 and 2010 was RMB15,563,000. Further details are given in Note 14.

**(b) Impairment of receivables**

Impairment of receivables is made based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the Relevant Periods.

(c) *PRC corporate income tax ("CIT")*

The Group's operating subsidiary in Mainland China is subject to PRC CIT. Certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and tax provision in the period in which the differences realize.

(d) *Useful lives of property, plant and equipment*

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated. The carrying amounts of property, plant and equipment at December 31, 2008, 2009 and 2010 were RMB364,523,000, RMB395,388,000 and RMB471,875,000, respectively.

(e) *Deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at December 31, 2009 and 2010 was RMB984,000 and RMB1,219,000, respectively.

(f) *Net realizable value of inventories*

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses these estimates at the end of each reporting period. The carrying amounts of inventories at December 31, 2008, 2009 and 2010 were RMB9,718,000, RMB10,636,000 and RMB25,028,000, respectively.

(g) *Convertible preference shares*

The Group's convertible preference shares are remeasured to fair value through profit or loss at subsequent reporting periods. The Company engaged an independent appraiser to assist in determining the fair value of these convertible preference shares. The determination of fair value was made after consideration of number of factors, including: the Group's financial and operating results; the global economic outlook in general and the specific economic and competitive factors affecting the Group's business and the Group's business plan and prospects; business risks the Group faces; and market yields and return volatility of comparable preference shares. These factors are subject to uncertainty.

#### **4 Revenue and operating segment information**

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges, where applicable.

The Group's revenue and contribution to profit are mainly derived from the manufacture and sale of fiber optic patch cords and other accessories, which is regarded as a single reportable operating segment in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for purposes of resource allocation and performance assessment. In addition, the principal assets employed by the Group are located in Mainland China. Accordingly, no segment analysis is presented other than entity-wide disclosures.

**Entity-wide disclosures***Information about products*

The following table sets forth the total revenue from external customers by products and the percentage of total revenue by products during the Relevant Periods:

	Year ended December 31,					
	2008		2009		2010	
	Revenue	%	Revenue	%	Revenue	%
Fiber optic patch cords	282,674	84.5	614,969	95.2	785,312	93.7
Connection and distribution product series	29,446	8.8	23,298	3.6	41,344	4.9
Equipment room accessories	22,367	6.7	7,383	1.2	11,482	1.4
	<u>334,487</u>	<u>100</u>	<u>645,650</u>	<u>100</u>	<u>838,138</u>	<u>100</u>

*Geographical information*

The following table sets out information about the geographical location of the Group's revenue from external customers during the Relevant Periods. The geographical location of customers is determined based on the location at which the goods were delivered.

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Domestic*:			
– Mainland China	<u>107,938</u>	<u>540,483</u>	<u>642,196</u>
Overseas:			
– Canada	56,230	9,393	–
– Ireland	64,731	86,006	81,334
– New Zealand	<u>105,588</u>	<u>9,768</u>	<u>114,608</u>
	<u>226,549</u>	<u>105,167</u>	<u>195,942</u>
	<u>334,487</u>	<u>645,650</u>	<u>838,138</u>

\* Place of domicile of the Group's principal subsidiary, Sifang Telecom.

All of the Group's non-current assets were located in Mainland China at the end of each of the Relevant Periods.

*Information about major customers*

Revenue from each major customer, which accounted for 10% or more of the Group's revenue for each of the Relevant Periods, is set out below:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Customer A	64,731	86,006	**
Customer B	56,230	**	**
Customer C	105,588	**	114,608
Customer D	**	164,866	249,316
Customer E	**	**	92,505
Customer F	**	78,595	100,831
	<u>        </u>	<u>        </u>	<u>        </u>

\*\* Less than 10%

The revenue from the above customers was in respect to fiber optic patch cords products.

## 5 Other income

An analysis of the Group's other income during the Relevant Periods is as follows:

	Year ended December 31,		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Government grants*	360	400	1,060
Deferred income released (Note 24)	400	400	400
Bank interest income	358	144	307
Others	22	503	39
Total other income	<u>1,140</u>	<u>1,447</u>	<u>1,806</u>

\* Various government grants have been received for certain research and development activities. There are no unfulfilled conditions or contingencies relating to these grants.

## 6 Profit before tax

The Group's profit before tax is arrived at after charging:

	Notes	Year ended December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
Cost of inventories sold		<u>175,311</u>	<u>445,322</u>	<u>570,174</u>
Employee benefit expense (including directors' remuneration as set out in Note 7):				
Wages and salaries		5,663	6,121	7,303
Pension scheme contributions				
– Defined contribution fund		<u>153</u>	<u>999</u>	<u>891</u>
Total employee benefit expense		<u>5,816</u>	<u>7,120</u>	<u>8,194</u>
Interest on bank loans		5,108	10,026	14,485
Foreign exchange losses, net		777	–	–
Bank loans guarantee fees		<u>1,060</u>	<u>941</u>	<u>1,366</u>
Finance costs		<u>6,945</u>	<u>10,967</u>	<u>15,851</u>
Auditors' remuneration		–	815	–
Depreciation of items of property, plant and equipment	10	15,012	24,352	28,758
Amortization of prepaid land lease payments	11	18	312	595
Operating lease rental in respect of buildings		–	–	602
Loss on disposal of items of property, plant and equipment		–	64	–
Research and development costs		4,800	5,020	4,000
Fair value losses on convertible preference shares	25	<u>38,488</u>	<u>–</u>	<u>–</u>

## 7 Directors' remuneration and five highest paid employees

Details of the remuneration of directors, disclosed pursuant to the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	173	198	1,076
Pension scheme contributions	52	59	58
	225	257	1,134
	225	257	1,134

## (a) Independent non-executive directors

Messrs. Shi Cuiming, Ma Kwai Yuen and Lui Pan were appointed as independent non-executive directors on June 3, 2011.

There was no emolument payable to the independent non-executive directors during the Relevant Periods.

## (b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Year ended December 31, 2008</b>				
Executive				
Zhao Bing	—	113	34	147
Meng Yuxiao	—	60	18	78
	—	173	52	225
<b>Year ended December 31, 2009</b>				
Executive				
Zhao Bing	—	124	37	161
Meng Yuxiao	—	74	22	96
	—	198	59	257
<b>Year ended December 31, 2010</b>				
Executive				
Zhao Bing	—	144	—	144
Meng Yuxiao	—	84	25	109
Hung, Randy King Kuen	—	764	8	772
Deng Xuejun	—	84	25	109
	—	1,076	58	1,134



Mr. Hung, Randy King Kuen was appointed as the Company's executive director on May 1, 2010 and Mr. Deng Xuejun was appointed as the Company's executive director and Vice General Manager of Sifang Telecom on March 16, 2010.

The non-executive director was Mr. Song Zhiping during the Relevant Periods. There was no emoluments payable to the non-executive director during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

**(c) Five highest paid employees**

The five highest paid employees during the Relevant Periods fall into the following categories:

	Year ended December 31,		
	2008	2009	2010
Directors	2	2	4
Non-directors	3	3	1
	<u>5</u>	<u>5</u>	<u>5</u>

Details of directors' remuneration are set out in Note 7 (b) above.

Details of the remuneration of the remaining non-director, highest paid employees during the Relevant Periods are as follows:

	Year ended December 31,		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	159	248	120
Pension contributions	48	44	—
	<u>207</u>	<u>292</u>	<u>120</u>

The remuneration of each of the individuals in each year in the Relevant Periods was below HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

**8 Income tax expense**

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the Relevant Periods.

The provision for PRC CIT is based on the CIT rate applicable to the subsidiary located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC for the Relevant Periods.

The major components of income tax expense for the Relevant Periods are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
PRC CIT for the year	–	21,283	27,689
Deferred tax movement ( <i>Note 15</i> )	–	(984)	2,301
	–	20,299	29,990

A reconciliation of income tax expense applicable to profit before tax at the applicable tax rates in the PRC to income tax expense of the Group's effective income tax rate for each of the Relevant Periods is as follows:

	Note	Year ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Profit before tax		86,880	159,382	211,861
Tax at the applicable tax rate	(a)	–	19,923	26,483
Effect of withholding tax at 10% on the distributable profit of Sifang Telecom ( <i>Note 15</i> )		–	–	2,536
Expenses not deductible for tax		–	376	971
		–	20,299	29,990

Notes:

- (a) In accordance with the relevant tax laws and regulations of the PRC, Sifang Telecom, the Company's PRC subsidiary, is subject to the PRC income tax as follows:

According to the "Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises", and pursuant to an approval document, "Shi Guo Shui Han [2007] No. 223" issued by Shijiazhuang State Tax Bureau on July 16, 2007, Sifang Telecom, as a manufacturing enterprise with foreign investment, is entitled to a full exemption from CIT for the two years ended December 31, 2007 and 2008 and a 50% reduction in CIT for three years ending December 31, 2009, 2010 and 2011.

On March 16, 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective on January 1, 2008.

The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

In accordance with "Guo Fa [2007] No. 39" promulgated on December 26, 2007, from January 1, 2008, the enterprises that originally enjoyed the preference of regular income tax reduction and exemption will continue to enjoy the original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference. Accordingly, Sifang Telecom will continue to enjoy the existing tax holiday until it expires.

In this connection, Sifang Telecom was entitled to a full exemption from CIT in 2007 and 2008, and is subject to CIT at a rate of 12.5% for the subsequent three years (2009 to 2011). Thereafter, it will be subject to the new CIT rate of 25%.

- (b) In accordance with IAS 12, deferred tax assets are measured at the tax rates that are expected to apply to the period when the asset is realized. Therefore, for Sifang Telecom, deferred tax assets are measured at 12.5% or 25% depending on whether the assets are expected to be realized in 2011, or 2012 and subsequently, respectively.

## 9 Earnings per share

The calculation of basic earnings per share amounts is based on the profits for each of the Relevant Periods attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the Relevant Periods.

The calculation of diluted earnings per share amounts is based on the profit for each of the Relevant Periods attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation in the number of ordinary shares in issue during the Relevant Periods, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended December 31, 2008 in respect of a dilution as the impact of the convertible preference shares outstanding had an anti-dilutive effect on the basic earnings per share amounts presented. The Group had no potentially dilutive ordinary share in issue during the years ended December 31, 2009 and 2010.

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
<b>Earnings:</b>			
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	86,880	139,083	181,871
Fair value losses on convertible preference shares	38,488	—	—
Profit attributable to ordinary equity holders of the Company adjusted for the effect of fair value losses	<u>125,368*</u>	<u>139,083</u>	<u>181,871</u>
<b>Shares:</b>			
Weighted average number of ordinary shares in issue during the Relevant Periods used in the basic earnings per share calculation	1,242,579	1,559,454	1,559,454
Effect of dilution – weighted average number of ordinary shares			
– Convertible preference shares	<u>308,864</u>	<u>—</u>	<u>—</u>
	<u>1,551,443*</u>	<u>1,559,454</u>	<u>1,559,454</u>

\* Because the diluted earnings per share amount is increased when taking convertible preference shares into account, the convertible preference shares had an anti-dilutive effect on the basic earnings per share for the year ended December 31, 2008 and were ignored in the calculation of diluted earnings per share. Therefore, the calculation of diluted earnings per share amounts is based on the profit for the year ended December 31, 2008 of RMB86,880,000, and the weighted average number of ordinary shares in issue of 1,242,579.

## 10 Property, plant and equipment

	<b>Buildings</b> <i>RMB'000</i>	<b>Plant and machinery</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Construction in progress (CIP)</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Cost:</b>						
At January 1, 2008	12,927	123,329	1,563	1,988	17,077	156,884
Additions	343	87,597	427	–	146,843	235,210
Transferred from CIP	36,559	–	–	–	(36,559)	–
At December 31, 2008 and January 1, 2009	49,829	210,926	1,990	1,988	127,361	392,094
Additions	–	23,112	1,325	91	30,753	55,281
Transferred from CIP	29,692	32,110	–	–	(61,802)	–
Disposal	–	(170)	–	–	–	(170)
At December 31, 2009 and January 1, 2010	79,521	265,978	3,315	2,079	96,312	447,205
Additions	2,626	46,645	244	–	55,730	105,245
At December 31, 2010	<u>82,147</u>	<u>312,623</u>	<u>3,559</u>	<u>2,079</u>	<u>152,042</u>	<u>552,450</u>
<b>Accumulated depreciation:</b>						
At January 1, 2008	515	11,023	644	377	–	12,559
Provided for the year	674	13,876	139	323	–	15,012
At December 31, 2008 and January 1, 2009	1,189	24,899	783	700	–	27,571
Provided for the year	1,504	22,296	232	320	–	24,352
Disposal	–	(106)	–	–	–	(106)
At December 31, 2009 and January 1, 2010	2,693	47,089	1,015	1,020	–	51,817
Provided for the year	2,257	25,874	313	314	–	28,758
At December 31, 2010	<u>4,950</u>	<u>72,963</u>	<u>1,328</u>	<u>1,334</u>	<u>–</u>	<u>80,575</u>
<b>Net book amount:</b>						
At January 1, 2008	<u>12,412</u>	<u>112,306</u>	<u>919</u>	<u>1,611</u>	<u>17,077</u>	<u>144,325</u>
At December 31, 2008	<u>48,640</u>	<u>186,027</u>	<u>1,207</u>	<u>1,288</u>	<u>127,361</u>	<u>364,523</u>
At December 31, 2009	<u>76,828</u>	<u>218,889</u>	<u>2,300</u>	<u>1,059</u>	<u>96,312</u>	<u>395,388</u>
At December 31, 2010	<u>77,197</u>	<u>239,660</u>	<u>2,231</u>	<u>745</u>	<u>152,042</u>	<u>471,875</u>

- (a) The Group is in the process of applying building ownership certificates ("BOC") for buildings which were built by the Group in 2008 and 2009. The net book amount of those buildings amounted to approximately RMB36,001,000, RMB773,000 and RMB749,000 as of December 31, 2008, 2009 and 2010, respectively. The Group's buildings can be sold, transferred or mortgaged when the relevant property certificates have been obtained.

The Group has obtained confirmation from the Shijiazhuang Property Administration Office that there are no foreseeable material obstacles in obtaining the required BOC. As advised by the Group's PRC legal advisor, according to the written confirmation from the Shijiazhuang Planning and Construction Bureau, the Group will not be penalized by the relevant planning and construction authorities for the Group's continuing use of the above mentioned buildings. Therefore, the Directors are of the opinion that the Group is entitled to lawfully occupy or use the above buildings and the Directors do not foresee any obstacles for the Group to obtain proper title certificates for the above mentioned buildings.

- (b) At the end of each reporting period, certain of the Group's property, plant and equipment has been secured for the Group's interest-bearing bank loans and bank loans guarantees granted by independent third parties as follows (Note 23):

	2008	December 31, 2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
In respect of:			
Interest-bearing bank loans – secured	46,650	128,237	134,657
Interest-bearing bank loans – guaranteed by:			
Hebei Guokong Guarantee Co., Ltd.	50,270	47,381	–
Hebei Baode Guarantee Co., Ltd.	–	–	194,326
Hebei Small and Medium Sized Enterprise Credit Guarantee Service Center ("Hebei Credit Guarantee")	58,073	64,229	–
	<u>154,993</u>	<u>239,847</u>	<u>328,983</u>

#### 11 Prepaid land lease payments

	2008	December 31, 2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>			
At beginning of year	820	820	25,739
Additions during the year	–	24,919	1,505
	<u>820</u>	<u>25,739</u>	<u>27,244</u>
<b>Accumulated amortization:</b>			
At beginning of year	105	123	435
Amortization for the year	18	312	595
	<u>123</u>	<u>435</u>	<u>1,030</u>
<b>Net book amount:</b>			
At end of year	<u>697</u>	<u>25,304</u>	<u>26,214</u>
At beginning of year	<u>715</u>	<u>697</u>	<u>25,304</u>
Net book amount pledged (Note 23)	<u>697</u>	<u>25,304</u>	<u>26,214</u>

Prepaid land lease payments represent the cost of land use rights in respect of certain leasehold land located in Mainland China, which is held under a medium lease term.

**12 Payments in advance**

	<b>2008</b> <i>RMB'000</i>	<b>December 31, 2009</b> <i>RMB'000</i>	<b>2010</b> <i>RMB'000</i>
In respect of:			
Purchase of land use rights	11,500	—	—
Purchase of property, plant and equipment	—	—	23,200
	<u>11,500</u>	<u>—</u>	<u>23,200</u>

**13 Investments in subsidiaries**

	<b>2008</b> <i>RMB'000</i>	<b>December 31, 2009</b> <i>RMB'000</i>	<b>2010</b> <i>RMB'000</i>
Unlisted investments, at cost:			
Sifang Telecom	81,760	132,008	132,008
Pacific Gain Technologies*	—	—	—
	<u>81,760</u>	<u>132,008</u>	<u>132,008</u>

\* The cost of investment in Pacific Gain Technologies is HK\$1.

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and repayable on demand. All amounts due from/to subsidiaries are denominated in US\$.

The dividend receivable as of December 31, 2009 represents dividend receivable from Pacific Gain Technologies.

The carrying amounts of the amount due from/to subsidiaries and dividend receivable approximate to their fair values.

**14 Goodwill**

	<b>2008</b> <i>RMB'000</i>	<b>December 31, 2009</b> <i>RMB'000</i>	<b>2010</b> <i>RMB'000</i>
<b>At cost:</b>			
At beginning and end of year	<u>15,563</u>	<u>15,563</u>	<u>15,563</u>

Goodwill arose on the acquisition of Sifang Telecom by the Company which represents the excess of the cost of the business combination over the Company's interest in the net fair value of Sifang Telecom's identifiable assets and liabilities as of the date of the acquisition.

Goodwill arising on the above acquisition was recognized in the consolidated statements of financial position as an asset, initially measured at cost and subsequently assessed for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets covering a five-year period with cash flows beyond the five-year period assumed to be stable. The discount rate applied to the cash flow projections is 10.4%.

Key assumptions were used in the value in use calculation of the cash-generating unit for the end of each reporting period. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted gross margins* – The basis used to determine the budgeted gross margins is based on the past performance and management's expectations for market development.

*Discount rate* – The discount rate used is post-tax and reflects specific risks relating to the relevant unit.

*Capital structure* – The capital structure of Sifang Telecom remains steady during the forecasted period.

The values assigned to key assumptions are consistent with external information sources.

## 15 Deferred tax

The movements in deferred tax assets are as follows:

	<b>Accrued expenses</b> RMB'000
At January 1, 2008, December 31, 2008 and January 1, 2009	–
Deferred tax credited to profit or loss during the year (Note 8)	984
	<hr/>
At December 31, 2009 and January 1, 2010	984
Deferred tax credited to profit or loss during the year (Note 8)	235
	<hr/>
At December 31, 2010	1,219
	<hr/> <hr/>

The movements in deferred tax liabilities are as follows:

	<b>Withholding taxes on distributable profit of Sifang Telecom</b> RMB'000
At January 1, 2008, December 31, 2008, January 1, 2009, December 31, 2009 and January 1, 2010	–
Deferred tax charged to profit or loss during the year (Note 8)	2,536
	<hr/>
At December 31, 2010	2,536
	<hr/> <hr/>

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. Accordingly, the payment of dividend by Sifang Telecom to the Company which holds a 100% equity interest in Sifang Telecom would be subject to applicable tax rate of 10%.

Pursuant to the resolutions of the board of directors of Sifang Telecom dated December 3, 2009 and February 25, 2010, the net profit of Sifang Telecom for the years ended December 31, 2008 and 2009, after appropriation to the statutory reserve fund would be used for the business development of Sifang Telecom and would not be distributed to the Company. As a result, no deferred tax liabilities relating to withholding tax on the distributable profits of Sifang Telecom for the years ended December 31, 2008 and 2009 have been recognized.

Pursuant to the resolution of the board of directors of Sifang Telecom dated June 22, 2010, Sifang Telecom will distribute dividend of not more than 25% of Sifang Telecom's annual distributable profit to the Company in respect of the financial year ended December 31, 2010 and the remaining distributable profit of Sifang Telecom will be used for the business development of Sifang Telecom and will not be distributed to the Company. Therefore, for the year ended December 2010, a deferred tax liability of RMB2,536,000, representing 10% withholding tax on 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund), has been provided for.



## 16 Inventories

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	3,366	4,314	4,823
Work in progress	5,139	2,903	17,854
Finished goods	1,213	3,419	2,351
	<u>9,718</u>	<u>10,636</u>	<u>25,028</u>

## 17 Trade receivables

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	92,185	386,463	563,668
Impairment	—	—	—
	<u>92,185</u>	<u>386,463</u>	<u>563,668</u>

Trade receivables are non-interest-bearing and are generally on terms of 30 to 360 days.

An aging analysis of trade receivables at the end of each reporting period, based on the invoice date, is as follows:

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	16,351	22,706	47,515
1 to 3 months	24,289	55,962	194,206
3 to 6 months	48,172	190,335	186,730
6 to 12 months	233	93,323	127,958
12 to 16 months	1,693	22,605	4,324
Over 16 months	1,447	1,532	2,935
	<u>92,185</u>	<u>386,463</u>	<u>563,668</u>

The aging analysis of the trade receivables that are not considered to be impaired is as follows:

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	89,045	362,326	556,409
Past due but not impaired			
Less than 1 month past due	296	10,257	2,773
Over 1 month but within 3 months past due	1,397	10,913	10
Over 3 months past due	1,447	2,967	4,476
	<u>92,185</u>	<u>386,463</u>	<u>563,668</u>

Receivables that were neither past due nor impaired relate to certain number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to certain independent customers. The Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As of December 31, 2008 (December 31, 2009 and December 31, 2010: Nil), certain trade receivables with an aggregate amount of RMB18,000,000 have been pledged to secure the guarantee of the Group's interest-bearing bank loans granted by Hebei Credit Guarantee, an independent third party (Note 23).

## 18 Prepayments, deposits and other receivables

### Group

	Notes	December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
Prepayments for purchase of raw materials		514	3,254	288
Guarantee deposit	(a)	–	1,000	3,500
Bidding deposit	(b)	–	3,682	2,177
Prepaid bank loan guarantee fee		–	–	280
Deferred listing fees	(c)	–	–	3,858
Others receivables		56	22	822
		<u>570</u>	<u>7,958</u>	<u>10,925</u>

Notes:

- (a) The guarantee deposit represented the deposit paid to independent third parties for bank loan guarantee provided to the Group (Note 23).
- (b) The bidding deposit represented the deposit for the bidding of a state-owned land use right of certain land located in the Shijiazhuang Economic and Technology Development Zone.
- (c) The deferred listing fees represented legal and other professional fees relating to the Listing, which will be deducted from equity when the Company completes the Listing.

The carrying amounts of other receivables closely approximate to their respective fair values.

### Company

As of December 31, 2010, prepayments and other receivables mainly represent deferred listing fees amounting to RMB3,858,000. Deferred listing fees represented legal and other professional fees relating to the Listing which will be deducted from equity when the Company completes the Listing.

## 19 Cash and cash equivalents and pledged bank deposits

### Group

	December 31,		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Cash on hand	16	7	11
Cash at banks	<u>37,190</u>	<u>106,118</u>	<u>128,784</u>
	37,206	106,125	128,795
Less: Pledged bank deposits*	<u>–</u>	<u>–</u>	<u>(1,200)</u>
	<u>37,206</u>	<u>106,125</u>	<u>127,595</u>

- \* The pledged bank deposit as of December 31, 2010 represented a bank deposit of the Group set aside for the application of the qualified supplier status for the supply of fiber optic patch cords to a telecommunication network operator.

At the end of each reporting period, the Group's cash and bank balances were denominated in the following currencies:

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	37,071	86,368	115,143
HK\$	—	—	132
US\$	135	19,757	13,520
	<u>37,206</u>	<u>106,125</u>	<u>128,795</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

#### Company

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	114	6,103	13,510

As of December 31, 2008 and December 31, 2009, the Company's cash at banks were denominated in US\$. As of December 31, 2010, the Company's cash at banks denominated in US\$ and HK\$ amounted to RMB13,385,000 and RMB125,000, respectively.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and pledged bank deposits approximate to their fair values.

#### 20 Due to a related party

The balance due to a related party of the Group and the Company as of December 31, 2008 and 2009 represented an amount payable to Mr. Zhao Bing, who is one of the ultimate controlling shareholders of the Group. The non-trade balance due to Mr. Zhao Bing is interest-free and payable on demand. As disclosed in Note 27(c), pursuant to a debt restructuring agreement dated December 8, 2008, Mr. Zhao Bing waived the amount due from Sifang Telecom of RMB24,328,000 during the year ended December 31, 2008.

#### 21 Trade payables

The carrying amounts of trade payables approximate to their fair values.

The trade payables are unsecured and non-interest-bearing and generally have credit terms ranging from 3 months to 1 year granted by the Group's creditors.

An aging analysis of the trade payables at the end of each reporting period, based on the invoice date, is as follows:

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	11,887	42,019	15,729
3 months to 6 months	1,247	19,143	1,037
6 months to 1 year	42	1,494	1,648
Over 1 year	911	1,241	1,132
	<u>14,087</u>	<u>63,897</u>	<u>19,546</u>

## 22 Other payables and accruals

	2008 RMB'000	December 31, 2009 RMB'000	2010 RMB'000
Payables related to:			
Taxes and surcharges	5,922	86,916	175,717
Payroll and welfare	2,246	2,449	4,423
Construction of property, plant and equipment	12,695	11,870	5,374
Purchase of equipment	1,029	–	–
Advance from government agencies	2,000	2,000	2,000
Others	11	32	249
	<u>23,903</u>	<u>103,267</u>	<u>187,763</u>
Accruals	–	568	1,637
	<u>23,903</u>	<u>103,835</u>	<u>189,400</u>

The carrying amounts of other payables approximate to their fair values.

Other payables and accruals are non-interest-bearing and have average payment terms within one year.

## 23 Interest-bearing bank loans

	2008 RMB'000	December 31, 2009 RMB'000	2010 RMB'000
<i>Repayable within one year:</i>			
Guaranteed and secured	68,000	88,000	70,000
Secured	12,000	118,000	203,500
	<u>80,000</u>	<u>206,000</u>	<u>273,500</u>
The bank loans bear interest at fixed rates per annum in the range of:	7.20% to 7.66%	5.31% to 11.52%	6.11% to 7.43%

At the end of each reporting period, all interest-bearing bank loans of the Group were denominated in RMB. The carrying amounts of the Group's bank loans approximate to their fair values.

The above bank loans were guaranteed and secured by:

	2008 RMB'000	December 31, 2009 RMB'000	2010 RMB'000
<i>Guaranteed by:</i>			
Related party – Mr. Zhao Bing*	50,000	50,000	–
<i>Third parties:</i>			
Hebei Guokong Guarantee Co., Ltd. (Note 10)	20,000	20,000	–
Hebei Baode Guarantee Co., Ltd. (Note 10)	–	–	70,000
Hebei Credit Guarantee (Notes 10 & 17)	18,000	18,000	–
	<u>88,000</u>	<u>88,000</u>	<u>70,000</u>
<i>Secured by (net book amount pledged):</i>			
Property, plant and equipment (Note 10)	46,650	128,237	134,657
Prepaid land lease payments (Note 11)	697	25,304	26,214

\* The bank loans were guaranteed by a related party for nil consideration (Note 31 (a)).

## 24 Deferred income

	2008	December 31, 2009	2010
	RMB'000	RMB'000	RMB'000
At beginning of year	3,900	4,300	5,700
Received during the year	800	1,800	–
Released to profit or loss	(400)	(400)	(400)
	<u>4,300</u>	<u>5,700</u>	<u>5,300</u>
At end of year	<u>4,300</u>	<u>5,700</u>	<u>5,300</u>

Deferred income represents government grants received for the purchase of items of property, plant and equipment that used in the production of fiber optic patch cords, which is the Group's major product. The deferred income is released to profit or loss at the annual installments rate of 10% per annum to match with the expected useful lives of the relevant assets.

## 25 Convertible preference shares

The movements in the Group's and the Company's convertible preference shares are as follows:

		2008	December 31, 2009	2010
	Notes	RMB'000	RMB'000	RMB'000
At beginning of year	(a)	91,192	–	–
Changes in fair value during the year		38,488	–	–
Changes in fair value upon modifications	(b)	(62,825)	–	–
Foreign exchange realignment to reserve		(5,829)	–	–
Conversion into ordinary shares	(c)	(61,026)	–	–
		<u>–</u>	<u>–</u>	<u>–</u>
At end of year		<u>–</u>	<u>–</u>	<u>–</u>

- (a) On September 5, 2007, the Company entered into the Subscription and Shareholders Agreement relating to Shares in Sapphire Holdings, Inc. Cathay Telecom Equipment Limited ("Cathay"), Wakee Holding, Inc ("Wakee") and six guarantors, consisting of the same individuals as the shareholders of Kemy, pursuant to which, the Company agreed to allot and issue to Cathay 324,886 convertible preference shares with a nominal value of US\$0.001 each for an aggregate consideration of US\$10,000,000 (equivalent to approximately RMB75,157,000).

Some of the key terms of the convertible preference shares are:

- **Further subscription option of preference shares ("Cathay Further Subscription Option")**

Cathay had the option or obligation (as the case may be) to further subscribe an additional 64,978 preferred shares under the following conditions:

- (i) *Where the 2007 Audited Net Profit is below US\$10 million (the "1st Position Further Subscription")*

Cathay had the option to further subscribe an additional 64,978 preference shares or any part thereof at an issue price of US\$30.78 per share.

- (ii) *Where the 2007 Audited Net Profit is in the range from US\$10 million to US\$12 million (the "2nd Position Further Subscription")*

Cathay shall further subscribe an additional 64,978 preference shares at an issue price of US\$30.78 per share.

- (iii) *Where the 2007 Audited Net Profit is more than US\$12 million (the "3rd Position Further Subscription")*

Cathay shall further subscribe an additional 64,978 preference shares at an issue price of US\$69.254 per share.

Cathay did not exercise the Cathay Further Subscription Option since its subscription of 324,886 convertible preference shares.

- **Preference shares conversion ratio ("Cathay Conversion Ratio")**

Cathay had the option to convert part or all of the preference shares into ordinary shares in the Company at an initial conversion ratio of 1 i.e., 1 preference share shall be converted into 1 ordinary share and adjustable by reference to the performance benchmarks as specified below:

- (i) Where the benchmark of the 2007 Audited Net Profit shall not be less than US\$10 million (the "Performance Benchmark 1") shall fail, the preference shares conversion ratio ("2007 Adjusted Conversion Ratio") shall be computed as follows:

$$R_{07} = [N/(1-P_{07})-N]/M$$

Where:

R07 = 2007 Adjusted Conversion Ratio

N: total number of all ordinary shares outstanding

$$P_{07} = I/[A_{07} (x)5] (x) 100\%$$

I: the Initial Amount + Optional Consideration

A07 = 2007 Audited Net Profit (which is below US\$10 million)

M = total number of all preference shares outstanding

- (ii) Where the benchmark of the 2008 Audited Net Profit shall not be less than US\$16 million (the "Performance Benchmark 2") shall fail, the preference shares conversion ratio ("2008 Adjusted Conversion Ratio") shall be computed as follows:

$$R_{08} = \{N/[1-P/(A_{08}/16,000,000)]-N\}/M$$

Where:

R08 = 2008 Adjusted Conversion Ratio

N: total number of all ordinary shares outstanding

P: Minimum Equity Ratio or the 2nd Position Equity Ratio or the 3rd Position Equity Ratio (as the case may be)

A08 = 2008 Audited Net Profit

M: Total number of all preference shares outstanding

- (iii) Where the benchmark of the 2009 Audited Net Profit shall not be less than US\$24 million (the "Performance Benchmark 3") shall fail, the preference shares conversion ratio ("2009 Adjusted Conversion Ratio") shall be computed as follows:

$$R_{09} = \{N/[1-P/(A_{09}/24,000,000)]-N\}/M$$

Where:

R09 = 2009 Adjusted Conversion Ratio

N: total number of all ordinary shares outstanding (for the purpose herein, preference shares are not deemed to have been converted into ordinary shares)

P: Minimum Equity Ratio or the 2nd Position Equity Ratio or the 3rd Position Equity Ratio (as the case may be)

A09 = 2009 Audited Net Profit

M: Total number of all preference shares outstanding

Cathay did not exercise the option to convert part or all of the preference shares into ordinary shares in the Company based on the above adjusted Cathay Conversion Ratio since its subscription of 324,886 convertible preference shares.

- **Conversion rights**

- (i) *Option conversion*

Cathay has the option to convert the preference shares at any time and from time to time into fully paid and non-assessable ordinary shares. Non-assessable ordinary shares is a class of shares in which the Company is not allowed to impose levies on its shareholders for additional funds for further investment.

- (ii) *Automatic conversion*

Each convertible preference share shall automatically be converted based on the applicable conversion ratio, immediately upon the initial public offering of the Company's shares or other means of capital raising as approved by majority of the board of directors.

- (iii) *Conversion ratio*

The conversion ratio for one preference share shall initially be equal to one and subject to such performance linked adjustments set out under "Preference shares conversion ratio" above.

- **Compulsory redemption**

It is agreed that if the ultimate equity ratio held by Cathay (the "Cathay Equity Ratio") on a fully converted basis is more than 49% (the "Capped Ratio"), Cathay shall redeem such number of preference shares at their original costs so that after such redemption, the equity ratio held by Cathay shall be capped at the Capped Ratio i.e., 49%. The Cathay Equity ratio is the shareholding ratio in which ordinary shares held by Cathay (treated on the deed fully converted basis at the Cathay Conversion Ratio) bears to all issued and outstanding ordinary shares of the Company. For the purpose of computing the total number of all issued and outstanding shares of the Company, all convertible preference shares held by Cathay are deemed to have been converted into ordinary shares at the Cathay Conversion Ratio.

As the various components in the convertible preference share instruments as discussed above are classified as a financial liability in their entirety in accordance with IAS 32, no bifurcation is required in accordance with IAS 39.

- (b) Modifications of certain key terms of the convertible preference shares

On December 22, 2008, the Company and Cathay entered into a Deed of Variation (the "2008 Deed of Variation") whereby the Company will no longer be bound by those provisions relating to the Cathay Further Subscription Option and Cathay Conversion Ratio. Also, the Cathay Conversion Ratio shall be fixed at a conversion ratio of 1 i.e., 1 preference share shall be converted into 1 ordinary share.

Contemporaneously upon signing of the 2008 Deed of Variation, Kemy and Cathay entered into a deed dated December 22, 2008 (the "Kemy Deed"), pursuant to which all rights and benefits relating to the Cathay Further Subscription Option and Cathay Conversion Ratio that were forgone by Cathay as a result of the 2008 Deed of Variation would be fully compensated by Kemy.

As a result of the 2008 Deed of Variation and Kemy Deed, the liability components relating to the Cathay Further Subscription Option and Cathay Conversion Ratio were derecognized, thus leading to a decrease in fair value of the convertible preference shares at the date when the modification took place. Such decrease was credited to the capital contribution reserve account as a contribution from Kemy.

- (c) Following an agreement between the shareholders including the convertible preference shareholder, all outstanding convertible preference shares were treated as having been converted on December 22, 2008 into 324,886 fully paid and non-assessable ordinary shares, increasing issued capital and share premium account of the Company by RMB2,000 and RMB61,024,000, respectively.



## 26 Share capital

		2008	December 31, 2009	2010
		RMB'000	RMB'000	RMB'000
Authorized capital (Ordinary shares of US\$0.001 each):	(a)	279	279	279
Issued and fully paid: (Ordinary shares of US\$0.001 each)				
At beginning of year		10	12	12
Conversion of convertible preference shares	(b)	2	—	—
At end of year		<u>12</u>	<u>12</u>	<u>12</u>

(a) The Company was incorporated in the Cayman Islands on August 7, 2006, with authorized share capital of US\$35,000 divided into 35,000,000 ordinary shares of US\$0.001 each. There was no change in the Company's authorized capital during the Relevant Periods.

(b) On December 22, 2008, 324,886 ordinary shares of US\$0.001 each were issued upon conversion of all outstanding convertible preference shares as set out in Note 25(c). The difference between the fair value of convertible preference shares on December 22, 2008 and the nominal value of 324,886 ordinary shares at par value of US\$0.001 each was credited to share premium account.

## 27 Reserves

**Group**

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of changes in equity.

**(a) Share premium**

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands. Under the constitutional documents and the Companies Law (Revised) of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

**(b) Statutory reserve fund**

According to the relevant PRC regulations applicable to wholly-foreign owned enterprises, Sifang Telecom is required to allocate certain portion (not less than 10%) of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of its registered capital.

SRF is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or capitalized as paid-up capital.

**(c) Special reserve**

On December 8, 2008, Sifang Telecom entered into a debt restructuring agreement with the then shareholders of Sifang Telecom i.e. Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu, Ms. Feng Xiaomei and Mr. Meng Yuxiao pursuant to which they agreed to waive the amount due from Sifang Telecom aggregated to RMB59,906,000, of which approximately RMB24,328,000 was received from Mr. Zhao Bing in 2007. The amounts waived were credited to the special reserve upon completion of the debt restructuring. Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu and Mr. Meng Yuxiao are ultimate shareholders of the Company.

## Company

The amounts of the Company's reserves and the movements therein are as follows:

	Share premium RMB'000	Capital contribution reserve RMB'000	Foreign translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2008	36,266	–	1,955	(18,889)	19,332
Issue of shares	21,604	–	–	–	21,604
Conversion of convertible preference shares	61,024	–	–	–	61,024
Compensation from Kemy for extinguishment of certain liability components of preference shares	–	62,825	–	–	62,825
Total comprehensive income/(loss) for the year	–	–	5,761	(38,889)	(33,128)
At December 31, 2008 and January 1, 2009	118,894	62,825	7,716	(57,778)	131,657
Total comprehensive income/(loss) for the year	–	–	(14)	37,173	37,159
At December 31, 2009 and January 1, 2010	118,894	62,825	7,702	(20,605)	168,816
Total comprehensive loss for the year	–	–	(139)	(9,905)	(10,044)
Dividend declared ( <i>Note 28</i> )	(51,206)	–	–	–	(51,206)
At December 31, 2010	<u>67,688</u>	<u>62,825</u>	<u>7,563</u>	<u>(30,510)</u>	<u>107,566</u>

The consolidated profit attributable to owners of the Company for the years ended December 31, 2008, 2009 and 2010 includes a loss of RMB38,889,000, RMB2,874,000 (excluding dividend income from a subsidiary) and RMB9,905,000, respectively, which have been dealt with in the financial statements of the Company.

## 28 Dividends

On January 11, 2010, the Company declared a one-off and non-recurring special dividend of US\$4.81 per ordinary share (equivalent to approximately RMB32.84 per ordinary share) amounting to US\$7,500,000 (equivalent to approximately RMB51,206,000) to all members registered in the Register of Members of the Company from the Company's share premium account. In the opinion of the Directors, such dividend will be settled before the Listing in 2011.

## 29 Commitments

## (a) Capital commitments

The Group had the following capital commitments at the end of each reporting period:

	2008 RMB'000	December 31, 2009 RMB'000	2010 RMB'000
Contracted, but not provided for:			
– Plant and machinery	12,544	–	122,092
– Land use rights	13,419	–	–
	<u>25,963</u>	<u>–</u>	<u>122,092</u>

**(b) Operating lease arrangements – As lessee**

The Group leases certain of its office buildings under operating lease arrangements for term of three years. At December 31, 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<i>RMB'000</i>
Within one year	702
In the second to fifth years, inclusive	908
	<u>1,610</u>

**30 Contingent liabilities**

In the opinion of the Directors, the Group had no significant contingent liabilities at the end of each reporting period.

**31 Related party transactions**

(a) During the Relevant Periods, the Group had the following significant non-recurring transaction with a related party:

	Year ended December 31,		
	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Guarantee of bank loans:</b>			
<i>Guaranteed by:</i>			
Mr. Zhao Bing	50,000	50,000	–

The bank loans were guaranteed by a related party for nil consideration (Note 23). The Directors consider that bank loans guaranteed by a related party were conducted based on terms more favorable than terms available from independent third parties.

The Directors confirmed that all remaining bank loans guaranteed by a related party have been fully released prior to the Listing.

(b) On December 8, 2008, Sifang Telecom entered into a debt restructuring agreement with the then shareholders of Sifang Telecom i.e., Mr. Zhao Bing, Ms. Shi Shuran, Mr. Zhang Yonglu, Ms. Feng Xiaomei and Mr. Meng Yuxiao, pursuant to which they agreed to waive the amounts due from Sifang Telecom aggregating RMB59,906,000. The amounts waived were credited to the special reserve upon completion of the debt restructuring.

The Directors consider that the waiver of amounts due to the then shareholders of Sifang Telecom were conducted based on terms as agreed among parties to the agreement.

(c) Details of the Group's balances with its related party at the end of each reporting period are disclosed in Note 20 to the Financial Information.

(d) Compensation of key management personnel of the Group:

	Year ended December 31,		
	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
Basic salaries and other benefits	333	512	1,364
Pension scheme contributions	100	103	83
	<u>433</u>	<u>615</u>	<u>1,447</u>

### 32 Financial risk management objectives and policies

Financial assets of the Group mainly include cash and cash equivalents, pledged bank balances, trade and other receivables, which arise directly from its operations. Financial liabilities of the Group include interest-bearing bank loans, trade payables, other payables, dividend payable, convertible preference shares and an amount due to a related party. The main purpose of these financial liabilities is to raise finance for the Group's operations.

Risk management is carried out by the finance department which is led by the Group's senior management and supported by the finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main financial risks faced by the Group are liquidity risk, interest rate risk, credit risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The board regularly reviews these risks and they are summarized below.

#### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans.

The maturity profile of the Group's financial liabilities at the end of each reporting period, based on the contractual payments, is as follows:

	December 31, 2008				
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	40,544	41,899	–	82,443
Trade payables	–	13,174	913	–	14,087
Due to a related party	474	–	–	–	474
Other payables	–	21,903	2,000	–	23,903
	<u>474</u>	<u>75,621</u>	<u>44,812</u>	<u>–</u>	<u>120,907</u>
	December 31, 2009				
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	77,032	135,686	–	212,718
Trade payables	–	42,019	21,878	–	63,897
Due to a related party	474	–	–	–	474
Other payables	–	101,267	2,000	–	103,267
	<u>474</u>	<u>220,318</u>	<u>159,564</u>	<u>–</u>	<u>380,356</u>
	December 31, 2010				
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	151,531	130,144	–	281,675
Trade payables	–	15,729	3,817	–	19,546
Dividend payable	–	–	51,206	–	51,206
Other payables	–	185,763	2,000	–	187,763
	<u>–</u>	<u>353,023</u>	<u>187,167</u>	<u>–</u>	<u>540,190</u>

**Interest rate risk**

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing bank loans. The interest rates and terms of repayment of interest-bearing bank loans are disclosed in Note 23. The Group manages its interest rate exposure arising from its interest-bearing loans through the use of fixed rates.

In addition, the Group does not consider that it has any significant exposure to the risk of changes in market interest rates as the Group does not have any long-term receivables and interest-bearing bank loans which are subject to floating interest rates.

**Credit risk**

The Group's principal financial assets are cash and cash equivalents, trade receivables and other receivables. Cash and cash equivalents are mainly deposits with state-owned banks in Mainland China. Credit risk is primarily attributable to the trade receivables.

As disclosed in Note 4, the Group sells most of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. The Group manages this risk by maintaining a strict control over its outstanding receivables and senior management regularly reviews the overdue balances. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. During the Relevant Periods, the Group generated its revenue mainly from the sales of fiber optic patch cords that used in a variety of application in the telecommunication industry, thereby, exposing the Group to the concentration of credit risk in the telecommunication industry.

The carrying amounts of trade receivables, other receivables, pledged deposits and cash and cash equivalents included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

In order to minimize credit risk, management continuously monitors the credit quality and financial condition of customers and the level of exposure by regular review of the credit evaluation of customers and suppliers to ensure that prompt action is taken to recover overdue debts and to lower exposure. Management evaluates the credit quality and financial conditions of the Group's suppliers based on their financial results, press releases and informal communications from time to time when they are aware of any unusual conduct or event in relation to suppliers. In respect of the credit quality and financial conditions of customers, the Group has adopted and will continue to implement a customer appraisal program to review its receivables, assess each customer's credibility and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group's Directors consider that credit risk is significantly reduced.

**Foreign currency risk**

The Group's businesses are mainly located in Mainland China with export sales settled in US\$ and domestic sales settled in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain trade receivables that are denominated in US\$, mainly arising from export sales conducted by the Group, which expose the Group to foreign currency risk.

The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. Management monitors the Group's foreign currency exposure and will consider hedging significant foreign currency exposure when the needs arise.

The following table demonstrates the sensitivity to a 5.0% change in RMB against US\$. The 5.0% is the rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign currency rate. The sensitivity analyses of the Group's exposure to foreign currency risk at the end of each reporting period have been determined based on the adjustment of translation of the monetary assets at the end of each reporting period for a 5.0% of change in RMB against US\$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of cash and cash equivalents and trade receivables denominated in US\$).

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
<b><i>Increase/(decrease) in profit before tax:</i></b>			
If RMB weakens against US\$	1,814	1,759	4,332
If RMB strengthens against US\$	(1,814)	(1,759)	(4,332)
	<u>          </u>	<u>          </u>	<u>          </u>

**Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt includes interest-bearing bank loans, trade payables, other payables and accruals, tax payable, dividend payable and an amount due to a related party less cash and cash equivalents. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios at the ends of each reporting period were as follows:

	<b>2008</b>	<b>December 31,</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans	80,000	206,000	273,500
Trade payables	14,087	63,897	19,546
Other payables and accruals	23,903	103,835	189,400
Tax payable	–	20,396	47,570
Dividend payable	–	–	51,206
Due to a related party	474	474	–
Less: Cash and cash equivalents	<u>(37,206)</u>	<u>(106,125)</u>	<u>(127,595)</u>
Net debt	81,258	288,477	453,627
Equity	<u>409,198</u>	<u>548,119</u>	<u>677,429</u>
Equity and net debt	<u><u>490,456</u></u>	<u><u>836,596</u></u>	<u><u>1,131,056</u></u>
Gearing ratio	17%	34%	40%

**33 Events after the reporting period**

On June 3, 2011, written shareholders' resolutions were passed to approve matters described in the paragraph headed "Statutory and General Information – Further Information about Our Group – Written resolutions of all the shareholders of the Company passed on June 3, 2011" attached as Appendix VI to the Prospectus.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to December 31, 2010.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong



The information set forth in this Appendix does not form part of the Accountants' Report prepared by the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" and "Appendix I – Accountants' Report".

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Global Offering on the adjusted net tangible assets of our Group as of December 31, 2010, as if they had taken place on such date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group following the Global Offering.

#### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared based on the consolidated net tangible assets as of December 31, 2010 as extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and is adjusted as described below.

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared to show the effect on the consolidated net tangible assets as of December 31, 2010 as if the Global Offering had occurred on December 31, 2010.

	<b>Audited consolidated net tangible assets attributable to owners of our Company as of December 31, 2010 RMB'millions<sup>(1)</sup></b>	<b>Estimated net proceeds from the issue of Offer Shares RMB'millions<sup>(2)</sup></b>	<b>Unaudited pro forma adjusted net tangible assets RMB'millions<sup>(3)</sup></b>	<b>Unaudited pro forma adjusted net tangible assets per share RMB<sup>(4)</sup></b>
Based on an Offer Price of HK\$1.20 per Share	<u>662</u>	<u>260</u>	<u>922</u>	<u>0.77</u>
Based on an Offer Price of HK\$1.60 per Share	<u>662</u>	<u>356</u>	<u>1,018</u>	<u>0.85</u>

*Notes:*

- (1) As of December 31, 2010, our audited consolidated net tangible assets attributable to owners of our company were equal to equity attributable to owners of our company less goodwill.
- (2) The estimated net proceeds from the Global Offering are based on hypothetical Offer Prices of HK\$1.20 and HK\$1.60, respectively, per Offer Share, assuming no exercise of the Over-allotment Option, after deduction of underwriting fees and estimated expenses payable by us in connection with the Global Offering.
- (3) By comparing the valuation of our property interests as set out in Appendix IV to this prospectus and the audited net book amount of these properties as of December 31, 2010, the valuation surplus was approximately RMB62 million, which has not been included in the above net tangible assets attributable to owners of our company. The valuation surplus of our property interests will not be incorporated in our consolidated financial statements for the year ending December 31, 2011. If the valuation surplus were to be included in our consolidated financial statements for the year ending December 31, 2011, an additional depreciation charge of approximately RMB1.2 million would be incurred.
- (4) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 1,200,000,000 Shares expected to be in issue immediately after the Capitalization Issue and the completion of the Global Offering. No account has been taken of (i) any Shares which may be allotted and issued upon exercise of the Over-allotment Option, (ii) any Shares which may be issued upon exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or (iii) any Shares which may be issued or repurchased by our company pursuant to the mandates set out in Appendix VI to this prospectus.
- (5) The Renminbi amount has been translated into Hong Kong dollar at HK\$1.00: RMB0.8332.

**B.    UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE**

The unaudited pro forma forecast earnings per Share of our Group for the six months ending June 30, 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2011. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial results of the Group following the Global Offering.

Forecast consolidated profit attributable to owners  
of our company for the six months ending June 30, 2011 (*Note 1*) . . . . .not less than  
RMB93.0 million  
(approximately HK\$111.6 million)

Unaudited pro forma forecast earnings per share  
for the six months ending June 30, 2011 (*Note 2*) . . . . .not less than RMB0.078  
(approximately HK\$0.093)

*Notes:*

- (1) The estimated consolidated profit attributable to owners of our company for the six months ending June 30, 2011 is extracted from the section headed "Financial Information — Profit Forecast for the Six Months Ending June 30, 2011" in this prospectus. The bases on which the above Profit Forecast for the Six Months Ending June 30, 2011 has been prepared are summarized in Part A of Appendix III to this prospectus.
- (2) The calculation of unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to owners of our company for the six months ending June 30, 2011 of RMB93.0 million and on the assumptions that our company has been listed since January 1, 2011 and a total number of 1,200,000,000 Shares were in issue during the six months ending June 30, 2011.
- (3) The unaudited pro forma estimated earnings per Share is converted into Hong Kong Dollars at an exchange rate of HK\$1.00 to RMB0.8332 prevailing on the Latest Practicable Date.

**C. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information.*



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
Tel: +852 2846 9888  
Fax: +852 2868 4432  
www.ey.com

June 16, 2011

The Directors  
China Fiber Optic Network System Group Ltd.  
BOCI Asia Limited

Dear Sirs,

We report on the unaudited pro forma adjusted net tangible assets and unaudited pro forma forecast earnings per share (the "Unaudited Pro Forma Financial Information") of China Fiber Optic Network System Group Ltd. (the "Company") together with its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company (the "Directors") for illustrative purpose only, to provide information about how the proposed offering of 300,000,000 shares of US\$0.001 each in the capital of the Company on the Main Board of the Hong Kong Stock Exchange ("Global Offering") might have affected the relevant financial information of the Group presented, for inclusion in Part A of Appendix II to the prospectus of the Company dated June 16, 2011 (the "Prospectus"). The basis of presentation of the Unaudited Pro Forma Financial Information is set out in Part A of Appendix II to the Prospectus.

**RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS**

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in

Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments of the Directors, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as of December 31, 2010 or any future date; and
- the forecast earnings per share of the Group for the six-months ending June 30, 2011 or any future periods.

## **OPINION**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

The forecast consolidated profit attributable to owners of the Company for the six months ending June 30, 2011 is set out in the section headed “Financial Information – Profit Forecast for the Six Months Ending June 30, 2011” in this prospectus.

#### A. BASES AND ASSUMPTIONS

Our directors have prepared the forecast of consolidated profit attributable to owners of the Company for the six months ending June 30, 2011 based on the unaudited management account for the four months ended April 30, 2011 and a forecast of the consolidated results of our Group for the remaining two months ending June 30, 2011.

The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as summarized in the Accountants’ Report as set forth in Appendix I to this prospectus.

The profit forecast has been prepared based on the following principal assumptions:

- (i) there will be no material changes in the existing government policies, political, legal, fiscal, market or economic conditions in the PRC, Hong Kong, or any other countries or territories in which our Group currently operates or which are otherwise material to our business;
- (ii) there will be no changes in legislation, regulations or rules in the PRC, Hong Kong or any other countries or territories in which our Group operates or with which our Group has arrangements or agreements, which may materially adversely affect our Group’s business or operations;
- (iii) there will not be material changes in the bases or applicable rates of taxation, subcharges or other government levies in the countries or territories in which our Group operates, except as otherwise disclosed in this prospectus;
- (iv) there will be no material changes in inflation, interest rates or foreign exchange rates from those currently prevailing in the context of our Group’s operations;
- (v) our Group’s operations will not be materially and adversely affected by any of the risk factors set out in “Risk Factors”;
- (vi) there will be no wars, military incidents, acts of terrorism, pandemic diseases, natural disasters, or force majeure events, unforeseeable factors or reasons that are beyond our control, which would have a material impact on our Group’s business and operating activities;
- (vii) the operation of our Group will not be adversely affected by occurrences such as labor shortages and disputes, or any other factors outside the control of the management of our Group. In addition, our Group will be able to recruit enough employees to meet its operating requirements; and
- (viii) the Directors and key senior management of our Group will continue to involve in the development and operation of our Group and our Group will be able to retain its key senior management and personnel during the forecast period.

**B. LETTER FROM THE REPORTING ACCOUNTANTS**

*The following is the text of a letter from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the profit forecast of our Group for the six months ending June 30, 2011.*



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
Tel: +852 2846 9888  
Fax: +852 2868 4432  
www.ey.com

June 16, 2011

The Directors  
China Fiber Optic Network System Group Ltd.  
BOCI Asia Limited

Dear Sirs,

We have reviewed the calculations and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to owners of China Fiber Optic Network System Group Ltd. (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the six months ending June 30, 2011 (the "Profit Forecast"), as set out in the paragraph headed "Profit Forecast" under the section headed "Financial Information" in the prospectus of the Company dated June 16, 2011 (the "Prospectus"), for which the directors of the Company (the "Directors") are solely responsible.

The Profit Forecast has been prepared by the Directors based on the unaudited management account for the four months ended April 30, 2011 and a forecast of the consolidated results of the Group for the remaining two months ending June 30, 2011.

In our opinion, so far as the calculation and accounting policies are concerned, the Profit Forecast has been properly compiled in accordance with the bases made by the Directors as set out in Part (A) of Appendix III of this prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants' Report dated June 16, 2011, the text of which is set out in Appendix I of this prospectus.

Yours faithfully,

**Ernst & Young**  
Certified Public Accountants  
Hong Kong



## C. LETTER FROM THE SOLE SPONSOR

**BOCI Asia Limited**

26/F, Bank of China Tower,  
1 Garden Road,  
Central, Hong Kong

June 16, 2011

The Directors  
China Fiber Optic Network System Group Ltd.

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to owners of China Fiber Optic Network System Group Ltd. (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the six months ending June 30, 2011 (the “**Profit Forecast**”) as set out in the Prospectus issued by the Company dated June 16, 2011 (the “**Prospectus**”).

We understand that the Profit Forecast has been prepared by the directors of the Company based on the unaudited management account for the four months ended April 30, 2011 and a forecast of the consolidated results of the Group for the remaining two months ending June 30, 2011.

We have discussed with you the bases as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated June 16, 2011 addressed to yourselves and ourselves from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

For and on behalf of  
**BOCI Asia Limited**

**Raymond Leung**  
*Executive Director*

**Arthur Cheng**  
*Executive Director*

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at March 31, 2011 of the property interests of the Group.*



Jones Lang LaSalle Sallmanns Limited  
6/F Three Pacific Place  
1 Queen's Road East Hong Kong  
tel +852 2169 6000 fax +852 2169 6001  
Licence No: C-030171

June 16, 2011

The Board of Directors  
**China Fiber Optic Network System Group Ltd.**  
Alishan Avenue  
Economic and Technological Development Zone  
Shijiazhuang City  
Hebei Province  
The PRC

Dear Sirs,

In accordance with your instructions to value the properties in which China Fiber Optic Network System Group Ltd. (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at March 31, 2011 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interest of property no.1 by the direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of property nos. 2 and 3 (excluding the portion under construction) and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales available, the property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the portion of property no. 3 which is under construction, we have assumed it will be developed and completed in accordance with the Group's latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the development.

We have attributed no commercial value to the property interest in Group II, which is rented by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with copies of tenancy agreements relating to the property interest and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisors – Grandall Legal Group, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). The exchange rate adopted in our valuations is approximately HK\$1 = RMB0.8423 which was approximately the prevailing exchange rate as at the date of valuation.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of  
**Jones Lang LaSalle Sallmanns Limited**

**Paul L. Brown**  
*B.Sc. FRICS FHKIS*  
*Chief Valuation Adviser*

**Sam B. Q. Zhu**  
*MRICS*  
*Director*

*Notes:*

1. Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.
2. Sam B. Q. Zhu is a Chartered Surveyor who has 13 years' experience in the valuation of properties in the PRC.

## SUMMARY OF VALUES

## Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at March 31, 2011 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at March 31, 2011 <i>RMB</i>
1.	Units 2101 to 2104 on Level 21 Kaiyuan Mansion No. 322 Zhongshan East Road Chang'an District Shijiazhuang City Hebei Province The PRC	20,478,000	100%	20,478,000
2.	A parcel of land and 14 buildings No.11 Chuangye Road Economic and Technological Development Zone Shijiazhuang City Hebei Province The PRC	14,299,000	100%	14,299,000
3.	4 parcels of land, 13 buildings and a building under construction located at the western side of Alishan Avenue Economic and Technological Development Zone Shijiazhuang City Hebei Province The PRC	159,164,000	100%	159,164,000
	<b>Sub-total:</b>	<u>193,941,000</u>		<u>193,941,000</u>

## Group II – Property interest rented and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at March 31, 2011 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at March 31, 2011 <i>RMB</i>
4.	Office Suite 2001-02 20th Floor Shui On Centre 6-8 Harbour Road, Wanchai Hong Kong	No commercial value		No commercial value
	<b>Sub-total:</b>	<u>Nil</u>		<u>Nil</u>
	<b>Total:</b>	<u><b>193,941,000</b></u>		<u><b>193,941,000</b></u>

## VALUATION CERTIFICATE

## Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
1.	Units 2101 to 2104 on Level 21 Kaiyuan Mansion No. 322 Zhongshan East Road Chang'an District Shijiazhuang City Hebei Province The PRC	The property comprises 4 office units on Level 21 of a 26-storey office building known as Kaiyuan Mansion completed in about 2007.  The units have a total gross floor area of approximately 1,183.69 sq.m.  The land use rights of the property have been granted for a term expiring on July 12, 2044 for commercial use.	The property is currently occupied by the Group for office purpose.	20,478,000  100% interest attributable to the Group: RMB20,478,000

## Notes:

1. Hebei Sapphire Telecommunication Equipment Co., Ltd. ("Sifang Telecom") is a wholly-owned subsidiary of the Company.
2. Pursuant to 4 Commodity Property Sale & Purchase Contracts dated October 29, 2007 entered into between Sifang Telecom and Hebei Kaiyuan Real Estate Development Limited, 4 units with a total gross floor area of approximately 1,041.47 sq.m. were contracted to be sold to Sifang Telecom at a total consideration of RMB9,315,297.
3. Pursuant to a State-owned Land Use Rights Certificate – Chang An Guo Yong (2008) Di No.00139, the land use rights of the property with a total apportioned site area of approximately 212.524 sq.m. have been granted to Sifang Telecom for a term expiring on July 12, 2044 for commercial use.
4. Pursuant to a Building Ownership Certificate – Shi Fang Quan Zheng Chang Zi Di No. 170000046, 4 units with a total gross floor area of approximately 1,183.69 sq.m. are owned by Sifang Telecom.
5. Pursuant to a Mortgage Contract entered into between Gaocheng City Rural Credit Cooperative Association and Cangzhou Rongxin Rural Commercial Bank Co.,Ltd. (the "Banks") and Sifang Telecom, the property is subject to a mortgage to guarantee the principal obligation under a contract entered into Sifang Telecom and the Banks for a loan amount of RMB10,000,000 with a loan period from August 30, 2010.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
  - a. Sifang Telecom has legally obtained the land use rights and the building ownership rights of the property and has the legal rights to occupy, use, profit from, transfer, lease, mortgage or otherwise dispose of the property.
  - b. Sifang Telecom should obtain the consent from the mortgagee and pay the debt preferentially with the income obtained from transferring or leasing the property.



## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
2.	A parcel of land and 14 buildings No.11 Chuangye Road Economic and Technological Development Zone Shijiazhuang City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 10,000 sq.m. and 14 buildings erected thereon which were completed in various stages between 1997 and 2006.</p> <p>The buildings have a total gross floor area of approximately 12,487.17 sq.m.</p> <p>The buildings mainly include 2 office buildings, 5 industrial buildings, 2 dormitories, 2 warehouses and 3 ancillary buildings.</p> <p>The land use rights of the property have been granted for a term expiring in March 2040 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and staff quarters purposes except for a portion of the property with a gross floor area of approximately 46 sq.m. which is currently occupied by a tenant.</p>	<p>14,299,000</p> <p>100% interest attributable to the Group: RMB14,299,000</p>

## Notes:

1. Hebei Sapphire Telecommunication Equipment Co., Ltd. ("Sifang Telecom") is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Gao Guo Yong (2006) Di No. 0716, the land use rights of a parcel of land with a site area of approximately 10,000 sq.m. have been granted to Sifang Telecom for a term expiring in March 2040 for industrial use.
3. Pursuant to 3 Building Ownership Certificates – Gao Cheng Fang Quan Zheng Liang Cun Zi Di Nos. 1145000007-001, 1145000007-002 and 1145000007-003, 14 buildings with a total gross floor area of approximately 12,487.17 sq.m. are owned by Sifang Telecom.
4. Pursuant to a Mortgage Contract entered into between Hebei Branch of Bank of Communications (the "Bank") and Sifang Telecom, the property is subject to a mortgage to guarantee the principal obligation under a contract entered into Sifang Telecom and the Bank for a loan amount of RMB18,000,000 with a loan period from March 10, 2011 to March 10, 2012.
5. Pursuant to a Tenancy Agreement, a portion of a building of the property with a gross floor area of approximately 46 sq.m. is rented to Shijiazhuang Branch of China Telecom, for a term expiring on November 30, 2013 at an annual rent of RMB6,000, inclusive of management fees but exclusive of water and electricity charges.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
  - a. Sifang Telecom has legally obtained the land use rights and the building ownership rights of the property and has the legal rights to occupy, use, profit from, transfer, lease, mortgage or otherwise dispose of the property;
  - b. Sifang Telecom should obtain the consent from the mortgagee and pay the debt preferentially with the income obtained from transferring or leasing the property; and
  - c. The Tenancy Agreement stated in note 5 is legal and valid and Sifang Telecom has the rights to lease the portion and charge rent.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
3.	4 parcels of land, 13 buildings and a building under construction located at the western side of Alishan Avenue Economic and Technological Development Zone Shijiazhuang City Hebei Province The PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 192,029.8 sq.m. and 13 buildings erected thereon which were completed in 2009 and 2010.</p> <p>The buildings have a total gross floor area of approximately 63,952.19 sq.m.</p> <p>The buildings include 5 industrial buildings, 5 dormitory buildings, an academic lecture hall, a guardhouse and a canteen.</p> <p>The property also comprises an office building which was under construction as at the date of valuation (the "CIP"). The CIP is scheduled to be completed in July 2011. Upon completion, it will have a gross floor area of approximately 13,837.2 sq.m.</p> <p>The total construction cost of CIP is estimated to be approximately RMB20,469,923.45, of which RMB 8,750,000 had been paid up to the date of valuation.</p> <p>The land use rights of the property have been granted for a term expiring on June 10, 2055 for industrial use.</p>	<p>The property is currently occupied by the Group for production, office and staff quarters purposes except for the CIP which is currently under construction.</p>	<p>159,164,000</p> <p>100% interest attributable to the Group: RMB159,164,000</p>

## Notes:

1. Hebei Sapphire Telecommunication Equipment Co., Ltd. ("Sifang Telecom") is a wholly-owned subsidiary of the Company.
2. Pursuant to 4 State-owned Land Use Rights Certificates – Gao Guo Yong (2009) Di Nos. 006, 101, 101-1 and 102, the land use rights of 4 parcels of land with a total site area of approximately 192,029.8 sq.m. have been granted to Sifang Telecom for a term expiring on June 10, 2055 for industrial use.
3. Pursuant to 4 Building Ownership Certificates – Gao Cheng Fang Quan Zheng Liang Cun Zi Di Nos. 1145000050-01, 1145000050-02, 1145000059 and 1145000051, 11 buildings with a total gross floor area of approximately 63,012.23 sq.m. are owned by Sifang Telecom.
4. For the remaining 2 buildings with a total gross floor area of approximately 939.96 sq.m., we have not been provided with any relevant title certificates.
5. Pursuant to a Mortgage Contract entered into between China Citic Bank and Sifang Telecom, a parcel of land (State-owned Land Use Rights Certificate – Gao Guo Yong (2009) Di Nos. 101) with a site area of approximately 34,466 sq.m. and 3 buildings (Building Ownership Certificate – Gao Cheng Fang Quan Zheng Liang Cun Zi Di No. 1145000051) with a total gross floor area of approximately 14,094.41 sq.m. erected thereon are subject to a mortgage for a maximum loan amount of RMB39,000,000 for a term from November 22, 2010 to November 22, 2011.
6. Pursuant to a Mortgage Contract entered into between Shijiazhuang Branch of Industrial Bank Co., Ltd. and Sifang Telecom, a parcel of land (State-owned Land Use Rights Certificate – Gao Guo Yong (2009) Di No. 102) with a site area of approximately 50,597 sq.m. and a building (Building Ownership Certificate – Gao Cheng Fang Quan Zheng Liang Cun Zi Di No. 1145000059) with a gross floor area of approximately 16,062.41 sq.m. are subject to mortgage for a maximum loan amount of RMB40,000,000 for a term from October 19, 2010 to October 18, 2011.
7. Pursuant to a Mortgage Contract entered into between Hebei Branch of Bank of Communications and Sifang Telecom, a parcel of land (State-owned Land Use Rights Certificate – Gao Guo Yong (2009) Di No. 006) with a site

- area of approximately 60,664.8 sq.m. and 7 buildings (Building Ownership Certificates – Gao Cheng Fang Quan Zheng Liang Cun Zi Di Nos. 1145000050-01 and 1145000050-02) with a gross floor area of approximately 32,855.41 sq.m. are subject to mortgage for a maximum loan amount of RMB50,000,000 for a term from January 19, 2011 to January 19, 2012.
8. Pursuant to a Construction Work Planning Permit – Jian Zi Di Jian Guan No.130100200900269 in favour of Sifang Telecom, 9 buildings with a total gross floor area of approximately 70,804.46 sq.m. (including the CIP and the 2 buildings stated in note 4) have been approved for construction.
  9. Pursuant to 3 Construction Work Commencement Permits – Nos. 1300183050128004, 1300183050124001 and 1300183050125001 in favour of Sifang Telecom, permissions by the relevant local authority were given to commence the construction work of the CIP and the 2 buildings stated in note 4.
  10. Pursuant to 2 Construction Work Completion and Inspection Letters dated April 6, 2010, the construction of the 2 buildings stated in note 4 has been completed and passed the acceptance inspection.
  11. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:
    - a. Sifang Telecom has legally obtained the land use rights of the property and the building ownership rights of the 11 buildings stated in note 3 and has the legal rights to occupy, use, profit from, transfer, lease, mortgage or otherwise dispose of the them;
    - b. Sifang Telecom will be entitled to occupy, use, profit from, transfer, lease, mortgage or otherwise dispose of the 2 buildings stated in note 4 after obtaining the Building Ownership Certificates;
    - c. Sifang Telecom has obtained requisite construction permits, and the construction of the CIP meets the requirements in Construction Work Planning Permit and Construction Work Commencement Permit; and
    - d. Sifang Telecom should obtain the consent from the mortgagee and pay the debt preferentially with the income obtained from transferring or leasing the property.
  12. We have relied on the aforesaid legal opinion and attributed no commercial value to the 2 buildings (mentioned in note 5) with a total gross floor area of approximately 939.96 sq.m. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land element) as at the date of valuation would be RMB1,103,000 assuming all title certificates have been obtained and the buildings could be freely transferred.

## VALUATION CERTIFICATE

## Group II – Property interest rented and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
4.	Office Suite 2001-02 20th Floor Shui On Centre 6-8 Harbour Road, Wanchai Hong Kong	<p>The property comprises an office unit on the 20th floor of a 34-storey office building completed in about 1987.</p> <p>The unit has a lettable area of approximately 2,719 sq.ft.</p> <p>Pursuant to a Tenancy Agreement dated April 22, 2010, the property is leased to the Company from Hang Lung Real Estate Agency Limited ("Hang Lung"), as agent for the owner AP Success Limited (an independent third party), for a term of 3 years commencing from April 15, 2010 and expiring on April 14, 2013 at a monthly rent of HK\$106,050 exclusive of rates, management fee and air-conditioning charges.</p>	<p>The property is currently occupied by the Group for office purpose except for 35% of the property with a gross floor area of approximately 946 sq.ft sublet to an independent third party.</p>	No commercial value

## Notes:

1. The registered owner of the property is AP Success Limited vide Memorial No. UB5945676 dated 17 February 1994.
2. Pursuant to a Guarantee and Indemnity dated April 22, 2010 between the Company, Hang Lung and Vision International Roadshow Company Limited (an independent third party, "Vision") and a supplement agreement dated April 22, 2010 between the Company and Vision, 35% of the property with a gross floor area of approximately 946 sq.ft. are sublet to Vision for a term of 36 months commencing from April 15, 2010 and expiring on April 14, 2013 with a rent free period of 3 months at a monthly rent of HK\$36,894 exclusive of rates, management fee and air-conditioning charges.

**SUMMARY OF THE CONSTITUTION OF THE COMPANY****1 Memorandum of Association**

The Memorandum of Association of the company was conditionally adopted on June 3, 2011 and states, inter alia, that the liability of members of the company is limited, that the objects for which the company is established are unrestricted and the company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VII in the section headed "Documents delivered to the registrar of companies and available for inspection".

**2 Articles of Association**

The Articles of Association of the company were conditionally adopted on June 3, 2011 and include provisions to the following effect:

*2.1 Classes of shares*

The share capital of the company consists of ordinary shares. The capital of the company at the date of adoption of the Articles of Association is US\$10,000,000 divided into 10,000,000,000 shares of US\$0.001 each.

*2.2 Directors***(a) Power to allot and issue Shares**

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the company (whether forming part of its original or any increased capital) shall be at the disposal of the directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the company or the holder thereof, liable to be redeemed.

**(b) Power to dispose of the assets of the company or any subsidiary**

The management of the business of the company shall be vested in the directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or

approved by the company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any director or past director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the director is contractually entitled) must first be approved by the company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the company may give financial assistance to directors and employees of the company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the company or any such subsidiary or holding company. Further, subject to all applicable laws, the company may give financial assistance to a trustee for the acquisition of shares in the company or shares in any such subsidiary or holding company to be held for the benefit of employees of the company, its subsidiaries, any holding company of the company or any subsidiary of any such holding company (including salaried directors).

(f) Disclosure of interest in contracts with the company or any of its subsidiaries

No director or proposed director shall be disqualified by his office from contracting with the company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the company with any person, company or partnership of or in which any director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any director so contracting or being any member or so interested be liable to account to the company for any profit so realized by any such contract or arrangement by reason only of such director holding that office or the fiduciary relationship thereby established, provided that such director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the company.

A director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the directors in respect of any contract or arrangement or any other proposal in which the director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the company or any of its subsidiaries;

- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the company or any of its subsidiaries for which the director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any proposal concerning an offer of shares, debentures or other securities of or by the company or any other company which the company may promote or be interested in for subscription or purchase where the director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
  - (iv) any proposal concerning any other company in which the director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the director or any of his associates is/are beneficially interested in shares of that company, provided that the director and any of his associates, are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;
  - (v) any proposal or arrangement concerning the benefit of employees of the company or any of its subsidiaries including:
    - the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the director or any of his associates may benefit;
    - the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to directors, their associates and employees of the company or any of its subsidiaries and does not provide in respect of any director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
    - any contract or arrangement in which the director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the company by virtue only of his interest in shares or debentures or other securities of the company.
- (g) Remuneration

The directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the directors, or the company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a director who holds any salaried employment or office in the company may be entitled by reason of such employment or office.



The directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the company or in the discharge of their duties as directors.

The directors may grant special remuneration to any director who shall perform any special or extra services at the request of the company. Such special remuneration may be made payable to such director in addition to or in substitution for his ordinary remuneration as a director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive director or a director appointed to any other office in the management of the company shall from time to time be fixed by the directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a director.

(h) Retirement, appointment and removal

The directors shall have power at any time and from time to time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing directors. Any director so appointed shall hold office only until the next annual general meeting of the company and shall then be eligible for re-election at that meeting.

The company may by ordinary resolution remove any director (including a Managing director or other executive director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the company and such director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as director or of any other appointment or office as a result of the termination of his appointment as director). The company may by ordinary resolution appoint another person in his place. Any director so appointed shall hold office during such time only as the director in whose place he is appointed would have held the same if he had not been removed. The company may also by ordinary resolution elect any person to be a director, either to fill a casual vacancy or as an addition to the existing directors. Any director so appointed shall hold office only until the next following annual general meeting of the company and shall then be eligible for re-election. No person shall, unless recommended by the directors, be eligible for election to the office of director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the company notice in writing by a member of the company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for directors nor is there any specified age limit for directors.

The office of a director shall be vacated:

- (i) if he resigns his office by notice in writing to the company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the directors (unless an alternate director appointed by him attends) for 12 consecutive months, and the directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the company under the Articles of Association.

At every annual general meeting of the company one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The company at any annual general meeting at which any directors retire may fill the vacated office by electing a like number of persons to be directors.

(i) Borrowing powers

The directors may from time to time at their discretion exercise all the powers of the company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the directors to exercise these powers may only be varied by a special resolution.

(j) Proceedings of the board

The directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### 2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

### 2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### 2.5 *Alteration of Capital*

The company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The company may from time to time by ordinary resolution:

- (a) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the company for the company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Companies Law; and

- (c) sub-divide its shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Cayman Companies Law.

#### *2.6 Special resolution – majority required*

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the company entitled to vote at a general meeting of the company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the company aforesaid.

#### *2.7 Voting rights*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the company.

Where any member of the company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the directors, no person other than a member of the company duly registered and who shall have paid all sums for the time being due from him payable to the company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the company or at any general meeting of any class of members of the company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the company holding the number and class of shares specified in such authorisation.

### *2.8 Annual general meetings*

The company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the company and that of the next.

### *2.9 Accounts and audit*

The directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the company, or any of them, shall be open to the inspection of members of the company (other than officers of the company) and no such member shall have any right of inspecting any accounts or books or documents of the company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorised by the directors or by the company in general meeting.

The directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a director's report with respect to the profit or loss of the company for the period covered by the profit and loss account and the state of the company's

affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the company as provided in the Articles of Association to every member of the company and every holder of debentures of the company provided that the company shall not be required to send copies of those documents to any person of whose address the company is not aware or to more than one of the joint holders of any shares or debentures.

The company shall at any annual general meeting appoint an auditor or auditors of the company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the company at the annual general meeting at which they are appointed provided that in respect of any particular year the company in general meeting may delegate the fixing of such remuneration to the directors.

#### *2.10 Notice of meetings and business to be conducted thereat*

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 clear days and any other extraordinary general meeting shall be called by not less than 14 clear days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the company).

Notwithstanding that a meeting of the company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of directors in place of those retiring;



- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the directors and of the auditors;
- (f) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the directors to repurchase securities of the company.

### *2.11 Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the company in respect thereof. All instruments of transfer shall be retained by the company.

The directors may refuse to register any transfer of any share which is not fully paid up or on which the company has a lien. The directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the directors may from time to time require) is paid to the company in respect thereof.

If the directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the company, send to each of the transferor and the transferee notice of such refusal.



The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the company by electronic means as provided in the Articles of Association, be suspended and the register of members of the company closed at such times for such periods as the directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

#### *2.12 Power of the company to purchase its own Shares*

The company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the directors may only exercise this power on behalf of the company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the SFC. Shares which have been repurchased will be treated as cancelled upon the repurchase, unless the directors resolve prior to the repurchase that upon the repurchase the shares shall be held in the name of the company as treasury shares.

#### *2.13 Power of any subsidiary of the company to own Shares*

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

#### *2.14 Dividends and other methods of distributions*

Subject to the Cayman Companies Law and Articles of Association, the company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the directors. No dividend may be declared or paid other than out of profits and reserves of the company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The directors may from time to time pay to the members of the company such interim dividends as appear to the directors to be justified by the profits of the company. The directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The directors may retain any dividends or other moneys payable on or in respect of a share upon which the company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The directors may also deduct from any dividend or other monies payable to any member of the company all sums of money (if any) presently payable by him to the company on account of calls, instalments or otherwise.

No dividend shall carry interest against the company.

Whenever the directors or the company in general meeting have resolved that a dividend be paid or declared on the share capital of the company, the directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The company may upon the recommendation of the directors by ordinary resolution resolve in respect of any one particular dividend of the company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the directors and shall revert to the company.

The directors may, with the sanction of the members of the company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the directors.

### *2.15 Proxies*

Any member of the company entitled to attend and vote at a meeting of the company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the company.

Instruments of proxy shall be in common form or in such other form as the directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

### *2.16 Calls on Shares and forfeiture of Shares*

The directors may from time to time make calls upon the members of the company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the company shall (subject to the company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the directors may determine, but the directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the company all moneys which at the date of forfeiture were payable by him to the company in respect of the shares, together with (if the directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the directors may prescribe from the date of forfeiture until payment, and the directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

#### *2.17 Inspection of register of members*

The register of members of the company shall be kept in such manner as to show at all times the members of the company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the directors may impose) be open to inspection by any member of the company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the directors may determine for each inspection.

#### *2.18 Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the company present in person or by proxy shall be a quorum provided always that if the company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the company or at any relevant general meeting of any class of members of the company.

The quorum for a separate general meeting of the holders of a separate class of shares of the company is described in sub-paragraph 2.4 above.

#### *2.19 Rights of minorities in relation to fraud or oppression*

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

#### *2.20 Procedure on liquidation*

If the company shall be wound up, and the assets available for distribution amongst the members of the company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the company shall be wound up, the liquidator may with the sanction of a special resolution of the company and any other sanction required by the Cayman Companies Law, divide amongst the members of the company in specie or kind the whole or any part of the assets of the company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

#### *2.21 Untraceable members*

The company shall be entitled to sell any shares of a member of the company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least

three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the company and upon receipt by the company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

## **SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**

### **1 Introduction**

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### **2 Incorporation**

The company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 August, 2006, under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

### **3 Share Capital**

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);



- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the Articles of Association or by an ordinary resolution of the company. The Articles of Association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **4 Dividends and Distributions**

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).



## 5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

## 6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

## 7 Disposal of Assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

## 8 Accounting and Auditing Requirements

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

## **9 Register of Members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

## **10 Inspection of Books and Records**

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

## **11 Special Resolutions**

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the Articles of Association) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the Articles of Association.

## **12 Subsidiary Owning Shares in Parent**

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

## **13 Mergers and Consolidations**

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by either (a) a special resolution of each constituent company or (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they

follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

#### **14 Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

#### **15 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

#### **16 Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

#### **17 Liquidation**

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

#### **18 Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**19 Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the company may apply for an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the company:
  - (i) on or in respect of the shares, debentures or other obligations of the company; or
  - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**20 Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**21 General**

Maples and Calder the company's legal advisors on Cayman Islands law, have sent to the company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR GROUP

### 1. Incorporation of our company

Our company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on August 7, 2006.

Our company is registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance and our principal place of business in Hong Kong is at Office Suite 2001-02, 20th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. Mr. Hung, Randy King Kuen has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for the service of process on our company in Hong Kong is the same as our company's registered place of business in Hong Kong as set out above.

As our company was incorporated in the Cayman Islands, our operation is subject to the relevant laws and regulations of the Cayman Islands and the company's constitution which comprises the Memorandum of Association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our constitution is set out in the section headed "Appendix V – Summary of the Constitution of the company and Cayman Islands Companies Law" of this prospectus.

### 2. Subsidiaries

As at the Latest Practicable Date, our company had the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Attributable equity interest	Principal activities
Hebei Sapphire Communication Equipment Co., Ltd. 河北四方通信設備有限公司	the PRC, April 9, 1998	RMB116,631,524	100%	manufacturer of fiber optic patch cords in China
Pacific Gain Technologies Limited 恒裕科技有限公司	Hong Kong, June 20, 2008	HK\$1.0	100%	exporter of fiber optic patch cords and related products

### 3. Changes in our share capital

The following sets out the changes in our company's issued share capital since the date of its incorporation further details of which are set forth in the section headed "History, Reorganization and Corporate Structure – Group Reorganization" in this prospectus:

On August 7, 2006, our company was incorporated as a company with limited liability under the laws of the Cayman Islands, with an initial authorized share capital of US\$1,000, divided into 1,000,000 ordinary shares of US\$0.001 each. As of the date of our incorporation, our company issued one share to the Offshore Incorporations (Cayman) Limited, which was immediately transferred to the Initial Shareholder. As of the same date, our company issued and allotted additional 999,999 shares to the Initial Shareholder for a consideration of US\$999,999.

On April 9, 2007, we allotted and issued to Wakee 234,568 ordinary shares, representing 19% of the then issued share capital of our company, for a consideration of US\$7.76 million.

On September 26, 2007, the Initial Shareholder transferred all of her 1,000,000 Shares to Kemy, representing 81% of the then issued share capital of our company.

Pursuant to a shareholders resolution passed on September 27, 2007, our authorized share capital was amended from being 35,000,000 ordinary shares and 3,000,000 preferred shares with a nominal value of US\$0.001 per share to 35,000,000 ordinary shares and 3,000,000 redeemable Series A Preferred Shares with a nominal value of US\$0.001 per share.

On September 27, 2007, we allotted and issued to Cathay 324,886 Series A Preferred Shares, representing 20.83% of the then issued share capital of our company, for a consideration of US\$10.0 million.

On February 12, 2008, Kemy transferred 25,991 Shares to Mr. Gong Hongyu, representing 1.67% of the issued share capital of our company.

Upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised) and the Capitalization Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, our authorised share capital will be US\$10,000,000 comprising 10,000,000,000 Shares and the issued share capital will be US\$1,200,000, comprising 1,200,000,000 Shares, credited as fully paid.

Save as disclosed in this Appendix, there has been no alteration in our share capital since our incorporation.

#### **4. Changes in share or registered capital of our subsidiaries**

The following alterations in the share or registered capital of our subsidiaries had taken place within the two years immediately preceding the date of this prospectus.

##### *(a) Sifang Telecom*

On October 8, 2007, our company provided a three-year interest-free loan in amount of US\$6,759,000 to Sifang Telecom, of which the equivalent amount of RMB21,000,000 was converted into the registered capital of Sifang Telecom upon the unanimous consents of our company and Sifang Telecom and the approval from the Provincial Department of Commerce of Hebei Province on September 26, 2008. As a result, the registered capital of Sifang Telecom was increased from RMB50,000,000 to RMB71,000,000.

On November 30, 2009, our company increased the registered capital of Sifang Telecom from RMB71,000,000 to RMB116,631,524, upon our full payment of RMB45,631,524.

(b) *Pacific Gain Technologies*

On June 20, 2008, Pacific Gain Technologies was incorporated as a company with limited liability under the laws of Hong Kong by Easytime Development Limited, with an authorized share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1 each. As of the date of its incorporation, Pacific Gain Technologies issued one share to Easytime Development Limited, who then transferred this one share to us on September 2, 2008, for a consideration of HK\$1. As a result, Pacific Gain Technologies became our wholly-owned subsidiary on September 2, 2008.

**5. Written resolutions of all the shareholders of our company passed on June 3, 2011**

Pursuant to the written resolutions passed by all the then shareholders of our company dated June 3, 2011, inter alia:

- (a) the authorized share capital of our company was increased from US\$38,000 to US\$10,000,000 by the creation of an additional 9,962,000,000 Shares ranking pari passu in all respects with the then existing issued Shares;
- (b) conditional on the conditions as set out in the section headed “Structure of the Global Offering – Conditions” in this prospectus:
  - (i) the Global Offering and the Over-allotment Option were approved and our directors were authorized to allot and issue the Offer Shares and Shares which may be required to be allotted and issued upon the exercise of the Over-allotment Option;
  - (ii) the share premium account of our company was approved to be credited as a result of the issue of the Offer Shares pursuant to the Global Offering; and conditional on the share premium account of our company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, an amount of US\$898,440.55 (then standing to the credit of the share premium account of our company) be capitalized and applied in full at par value of a total of 898,440,546 Shares for allotment and issue to the following shareholders in the following manner:

<b>Shareholder</b>	<b>Number of Shares to be allotted and issued</b>
Kemy	561,151,003
Cathay	187,174,970
Wakee	135,140,506
Mr. Gong Hongyu	14,974,067
	<u>898,440,546</u>



- (iii) a general unconditional mandate was given to our directors to exercise all the powers of our company to allot, issue and deal with, otherwise than by way of rights issue or an issue of shares upon the exercise of any subscription rights attached to any warrants of our company or pursuant to the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our company and/or any of its subsidiaries of shares or rights to acquire shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of shares of our company in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by the shareholders of our company in general meeting, Shares with a total nominal value not exceeding (1) 20% of the aggregate of the total nominal value of the share capital of our company in issue immediately following completion of the Global Offering (without taking into account any Shares falling to be issued pursuant to the exercise of the Over-allotment Option or any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme) and (2) the aggregate nominal value of Shares repurchased under the authority granted to the Directors as referred to in paragraph (iv) below, such mandate to remain in effect until whichever is the earliest of:
- (aa) the conclusion of the next annual general meeting of our company;
  - (bb) the expiration of the period within which the next annual general meeting of our company is required by the Articles or any other applicable laws of the Cayman Islands to be held; and
  - (cc) the passing of an ordinary resolution of the shareholders of our company in general meeting revoking, varying or renewing such mandate;
- (iv) a general unconditional mandate was given to our directors authorizing them to exercise all powers of our company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the total nominal value of the share capital of our company in issue immediately following completion of the Global Offering (without taking into account any Shares falling to be issued pursuant to the exercise of the Over-allotment Option or any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:
- (aa) the conclusion of the next annual general meeting of our company;
  - (bb) the expiration of the period within which the next annual general meeting of our company is required by the Articles or any other applicable laws of the Cayman Islands to be held; and
  - (cc) the passing of an ordinary resolution of the shareholders of our company in general meeting revoking, varying or renewing such mandate;

- (c) conditional further on the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the Shares to be issued pursuant to the Share Option Scheme, its rules were approved and adopted and our directors were authorized to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme;
- (d) conditional further on the Listing Committee of the Stock Exchange granting approval of the listing of an permission to deal in the Shares to be issued pursuant to the Pre-IPO Share Option Scheme, its rules were approved and adopted and our directors were authorized to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Scheme; and
- (e) the Memorandum of Association and Articles of Association were conditionally approved and adopted.

## 6. Corporate reorganization

The companies within our Group underwent reorganization in preparation for the Listing. For further details, please refer to the section headed “History, Reorganization and Corporate Structure” in this prospectus.

## 7. Repurchase by our company of our Shares

This section includes information relating to the repurchase by us of our own Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

### (a) *Relevant legal and regulatory requirements in Hong Kong*

The Listing Rules permit our shareholders to grant to our directors a general mandate to repurchase our Shares that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution by our shareholders in a general meeting.

### (b) *Shareholders' approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On June 3, 2011, our directors were granted a general mandate to repurchase up to 10% of the aggregate nominal value of the share capital of our company in issue immediately following the Global Offering on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of our next annual shareholders' general meeting, (ii) the date by which our next shareholders' general meeting is required by applicable laws and the Articles of Association to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of our shareholders in a general meeting (the “**Relevant Period**”).

*(c) Source of funds*

Our repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association and Articles of Association and the applicable laws of the Cayman Islands. We may not repurchase our Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, we may make repurchases with funds which would otherwise be available for dividend or distribution or out of an issue of new Shares for the purpose of the repurchase.

*(d) Reasons for repurchases*

Our directors believe that it is in our and our shareholders' best interests for our directors to have general authority to execute repurchases of our shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our directors believe that such repurchases will benefit us and our shareholders.

*(e) Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum of Association and Articles of Association and the Listing Rules.

On the basis of the current financial position of our company as disclosed in this prospectus and taking into account the current working capital position of our company, our directors believe that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our company or the gearing levels which in the opinion of our directors are from time to time appropriate for us.

*(f) Share capital*

The exercise in full of the current repurchase mandate, on the basis of 1,200,000,000 Shares in issue immediately after the Global Offering without taking into account the Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option, could accordingly result in up to 120,000,000 Shares being repurchased by us during the Relevant Period.

*(g) General*

None of our directors nor, to the best of their knowledge and having made all reasonable enquiries, any of its associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us or our subsidiaries.

Our directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, the Memorandum of Association and Articles of Association, the Cayman Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Our directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No connected person as defined by the Listing Rules has notified us that he or it has a present intention to sell his or its Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

## **B. FURTHER INFORMATION ABOUT OUR COMPANY**

### **1. Summary of our material contracts**




The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years preceding the date of this prospectus which are or may be material:

- (a) a subscription and shareholders agreement dated September 5, 2007 entered into among our company, Cathay, Wakee and the Kemy Shareholders in relation to the subscription of 324,886 Series A Preferred Shares, representing 20.83% of the enlarged issued share capital of our company, for a consideration of US\$10 million and to establish certain matters pertaining to the operation and management of our company;
- (b) a deed of confirmation and adherence dated September 27, 2007 entered into among our company, Cathay, Kemy and the Kemy Shareholders supplementing the Subscription and Shareholders Agreement;
- (c) a deed of variation dated December 22, 2008 entered into among our company, Cathay, Wakee, Kemy, Mr. Gong Hongyu and the Kemy Shareholders amending and varying certain terms of the Subscription and Shareholders Agreement as supplemented by the deed of confirmation and adherence dated September 27, 2007;
- (d) a second deed of variation dated March 4, 2010 entered into among our company, Cathay, Wakee, Kemy, Mr. Gong Hongyu and the Kemy Shareholders amending and varying certain terms of the Subscription and Shareholders Agreement as amended and varied by the Deed of Variation;
- (e) a third deed of variation dated December 30, 2010 entered into among our company, Cathay, Wakee, Kemy, Mr. Gong Hongyu and the Kemy Shareholders amending and varying certain terms of the Subscription and Shareholders Agreement as amended and varied by the Deed of Variation and the Second Deed of Variation;
- (f) a deed of non-competition undertaking dated June 13, 2011 given by Kemy, Mr. Zhao Bing and Ms. Shi Shuran in favor of our company further details of which are set out in the section headed "Relationship with Controlling Shareholders – Non-competition Undertaking from our Controlling Shareholder" in this prospectus;
- (g) a deed of indemnity dated June 13, 2011 given by Kemy, Mr. Zhao Bing and Ms. Shi Shuran in favor of our company containing indemnities in respect of estate duty, taxation and losses arising out of legal compliance, properties and intellectual properties; and

(h) the Hong Kong Underwriting Agreement.

## 2. Our intellectual property rights

(a) As at the Latest Practicable Date, our Group had registered the following trademarks:

Trademark	Registrant	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
	Sifang Telecom	China	9 <sup>(1)</sup>	6528898	April 7, 2010	April 6, 2020
	Sifang Telecom	China	9 <sup>(1)</sup>	1984161	June 28, 2003	June 27, 2013
<b>Mark A</b> 	China Fiber Optic Network System Group Ltd.	Hong Kong	9 <sup>(1)</sup> , 38 <sup>(2)</sup>	301552590	March 1, 2010	February 29, 2020
<b>Mark B</b> 						
<b>Mark A</b>  中國光纖網絡系統集團有限公司 CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.	China Fiber Optic Network System Group Ltd.	Hong Kong	9 <sup>(1)</sup> , 38 <sup>(2)</sup>	301637127	June 11, 2010	June 10, 2020
<b>Mark B</b>  中國光纖網絡系統集團有限公司 CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.						

### Notes:

- (1) Class 9 Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers; calculating machines, data processing equipment and computers; fire-extinguishing apparatus.
- (2) Class 38 Telecommunications.

(b) As at the Latest Practicable Date, our Group had registered the following domain names:

<b>Domain Name</b>	<b>Registrant</b>	<b>Registration Date</b>	<b>Expiration Date</b>
sifangtelecom.com	Sifang Telecom	March 3, 2000	March 3, 2013
chinafiber optic.com	China Fiber Optic Network System Group Ltd.	March 26, 2010	March 25, 2012
chinafiber optic.net	China Fiber Optic Network System Group Ltd.	March 26, 2010	March 25, 2012
chinafiber optic.com.hk	China Fiber Optic Network System Group Ltd.	June 15, 2010	June 15, 2011

(c) As at the Latest Practicable Date, our Group had registered the following patents:

<b>Patent</b>	<b>Registrant</b>	<b>Registration Date</b>	<b>Duration</b>
Fiber optic patch cord	Sifang Telecom	November 28, 2006	10 years
Closure for optical fiber cables	Sifang Telecom	November 28, 2006	10 years
Closure for optical fiber cables (GPJ97J3)	Sifang Telecom	February 26, 2007	10 years
Optical fiber cable termination box (GP168Z5)	Sifang Telecom	February 26, 2007	10 years
Optical fiber cable termination box (GP168Z4)	Sifang Telecom	February 26, 2007	10 years
Wall-mounted cable switch box (XF558B)	Sifang Telecom	February 26, 2007	10 years
Mixed distribution cabinet (G/MPX558H)	Sifang Telecom	February 26, 2007	10 years
Optical fiber distribution frames (GPX278B2)	Sifang Telecom	February 26, 2007	10 years
Network cabinet (WLG168W)	Sifang Telecom	February 26, 2007	10 years
Telephone distribution box (XF558B-5 pairs)	Sifang Telecom	November 20, 2007	10 years
Wall-mounted broadband network box	Sifang Telecom	November 20, 2007	10 years
Wall-embedded broadband network box	Sifang Telecom	November 20, 2007	10 years

<b>Patent</b>	<b>Registrant</b>	<b>Registration Date</b>	<b>Duration</b>
Digital distribution frame (MPX5585M4)	Sifang Telecom	November 20, 2007	10 years
Network cabinet (WLG168X)	Sifang Telecom	December 18, 2007	10 years
Wall-embedded telephone distribution box (FXH558A)	Sifang Telecom	December 18, 2007	10 years
Wall-mounted telephone distribution box (FXH558B)	Sifang Telecom	December 18, 2007	10 years
Cross connecting cabinet for optical cable (GPX168C4)	Sifang Telecom	December 18, 2007	10 years
Optical fiber cable termination box (GP168Z6)	Sifang Telecom	December 18, 2007	10 years
Broadband network box (lamphouse style)	Sifang Telecom	May 26, 2008	10 years
Optical fiber communications turntable	Sifang Telecom	April 8, 2010	10 years
Electronic heater for melting optical communications devices	Sifang Telecom	April 8, 2010	10 years
Optical fiber communications launcher	Sifang Telecom	April 8, 2010	10 years
Modules for optical fiber communications	Sifang Telecom	April 8, 2010	10 years
Optical fiber communications network protection system	Sifang Telecom	April 8, 2010	10 years
Optical fiber communication system with Brillouin amplification effect	Sifang Telecom	April 8, 2010	10 years
Cylindrical sleeve fiber optic patch cord	Sifang Telecom	April 15, 2010	10 years
SC fiber optic patch cord	Sifang Telecom	April 15, 2010	10 years
High-performance fiber optic patch cord	Sifang Telecom	April 15, 2010	10 years
Portable communications device	Sifang Telecom	April 8, 2010	10 years
Underwater optical fiber cables	Sifang Telecom	April 8, 2010	10 years
LC fiber optic patch cord	Sifang Telecom	May 10, 2010	10 years
ST fiber optic patch cord	Sifang Telecom	May 10, 2010	10 years
LC fiber optic patch cord	Sifang Telecom	May 10, 2010	10 years
D4 fiber optic patch cord	Sifang Telecom	August 25, 2010	10 years



Patent	Registrant	Registration Date	Duration
MU fiber optic patch cord	Sifang Telecom	August 25, 2010	10 years
SMA fiber optic patch cord	Sifang Telecom	August 25, 2010	10 years
MTRJ fiber optic patch cord	Sifang Telecom	August 25, 2010	10 years
DIN fiber optic patch cord	Sifang Telecom	August 25, 2010	10 years
MPO fiber optic patch cord	Sifang Telecom	August 25, 2010	10 years
SC high-speed optical fiber connector	Sifang Telecom	August 27, 2010	10 years
E2000 Optical fiber connector	Sifang Telecom	August 25, 2010	10 years
FC type optical fiber connector	Sifang Telecom	October 11, 2010	10 years
Optical fiber quick joint	Sifang Telecom	October 11, 2010	10 years
SC type optical fiber quick joint	Sifang Telecom	October 20, 2010	10 years

As of the Latest Practicable Date, our Group had 2 pending patent applications in China as set out in the following table:

Pending patent application	Registrant	Category	Application Date	Application Number
High-speed fiber optic patch cord with visual window	Sifang Telecom	Utility Model	September 25, 2010	201020539528.3
SC integrated high-speed fiber optic connecting patch cord	Sifang Telecom	Utility Model	September 25, 2010	201020539534.9

We have obtained the acceptance letter from the State Intellectual Property Office of the PRC for the 2 patents applications as of the Latest Practicable Date and expect to obtain approvals for these patent applications in 2011. Grandall Legal Group, our PRC legal advisor, is of the opinion that there are no material legal impediments in obtaining these patents.

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

**C. FURTHER INFORMATION ABOUT OUR DIRECTORS****1. Particulars of service contracts**

We have entered into service contracts with each of our executive directors and letters of appointment with each of our non-executive and independent non-executive directors, pursuant to which each director is appointed for terms of 3 years with effect from June 3, 2011, subject to re-election as and when required under the Articles of Association and the Listing Rules, and will continue thereafter until terminated in accordance with the terms of the service contracts or appointment letters, as the case may be.

The letters of appointment are available for inspection at the times and places set out in Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus.

None of our directors has entered into a service contract with us which does not expire or which is not terminable by us within one year without payment of compensation (other than statutory compensation).

**2. Directors’ remuneration**

Save as disclosed in this prospectus, none of our directors received any allowances, benefits in kind (including our contribution to the pension scheme on behalf of our directors) or any bonuses from us during each of the years ended December 31, 2008, 2009 and 2010.

It is estimated that remuneration and benefits in kind equivalent to RMB3,254,950 in aggregate will be paid and granted to our directors by us in respect of the financial year ending December 31, 2011 under arrangements in force at the date of this prospectus.

**3. Fees or commissions received**

Save as disclosed in this prospectus, none of the directors or any of the persons whose names are listed in the paragraph headed “Consents” in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group from our Group within the two years preceding the date of this prospectus.

**4. Related party transactions**

During the two years preceding the date of this prospectus, we were engaged in related party transactions as described in note 31 of the Accountants’ Report set out in Appendix I of this prospectus.

## 5. Disclosure of interests

- (a) *Interests and short positions of our directors and chief executives in the share capital of our company and its associated corporations following the Global Offering and the Capitalization Issue*

Immediately following completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of any option that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our directors and our chief executives in the shares, underlying shares and debentures of our company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Issues contained in the Listing Rules, will be as follows:

Long positions in the shares, underlying shares and debentures of our company or its associated corporations

<b>Name of Director</b>	<b>Company/ name of associated company</b>	<b>Natural of interest</b>	<b>Number of securities</b>	<b>Percentage of shareholding after the Global Offering</b>
Mr. Zhao Bing	Our company	Interest of a controlled corporation (Note 1)	562,125,012 Shares	46.85%
	Kemy	Beneficial interest	4,740 share of US\$1.00 each	79%
Meng Yuxiao	Our company	Beneficial interest (Note 3)	7,200,000 Shares	0.59%
Deng Xuejun	Our company	Beneficial interest (Note 3)	7,200,000 Shares	0.59%
Hung Randy King Kuen	Our company	Beneficial interest (Note 3)	7,200,000 Shares	0.59%

Name of Director	Company/ name of associated company	Natural of interest	Number of securities	Percentage of shareholding after the Global Offering
Song Zhiping	Our company	Interest in a controlled corporation (Note 2)	99,375,074 Shares	8.28%
	Wakee	Beneficial interest	1,000,000 share of US\$0.001 each	100%

*Notes:*

1. These Shares are registered in the name of Kemy, the entire issued share capital of which is legally and beneficially owned as to 79% by Mr. Zhao Bing, 17% by Ms. Shi Shuran (mother of Mr. Zhao Bing), 1% by Mr. Zhang Yonglu, 1% by Mr. Deng Xuejun (an executive Director), 1% by Mr. Meng Yuxiao (an executive Director) and 1% by Mr. Han Liren. Under the SFO, Mr. Zhao Bing is deemed to be interested in all the Shares held by Kemy.
2. These Shares are registered in the name of Wakee, the entire issued share capital of share is legally and beneficially owned by Ms. Ou Shujin, the spouse of Mr. Song Zhiping. Under the SFO, Mr. Song Zhiping is deemed to be interested in all the Shares held by Ms. Ou Shujin.
3. These represent the Shares to be allotted and issued by our company upon exercise of options granted under the Pre-IPO Share Option Scheme.

(b) *Interests and short positions of the substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO following the Global Offering and the Capitalization Issue*

Immediately following completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of any option that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or the exercise of the Over-allotment Option (and assuming that the obligations of the Underwriters to subscribe and/or purchase, and procure the subscription and/or purchase of, Shares under the Underwriting Agreements will terminate on the Listing Date) and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date, in addition to the interests disclosed under paragraph (a) above, so far as our directors were aware, as at the Latest Practicable Date, the following persons (other than our directors or chief executive or members of our Group) were expected to have interests and/or short positions in the shares and underlying shares of our company which are required to be disclosed to the company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and/or are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our company or any other member of our Group:

Interests and long positions in the shares and underlying shares of our company or its associated corporations

<b>Name</b>	<b>Nature of Interest</b>	<b>Number of Shares held after the Global Offering</b>	<b>Percentage of shareholding after the Global Offering</b>
Kemy	Beneficial owner	562,125,012 (Note 1)	46.85%
Cathay	Beneficial owner	117,499,856	9.79%
Cathay Capital Holdings, L.P.	Interest in a controlled corporation	117,499,856 (Note 2)	9.79%
Cathay Master GP, Ltd.	Interest in a controlled corporation	117,499,856 (Note 2)	9.79%
Wakee	Beneficial owner	99,375,074 (Note 3)	8.28%

*Notes:*

- These Shares are registered in the name of Kemy, the entire issued share capital of which is legally and beneficially owned as to 79% by Mr. Zhao Bing, 17% by Ms. Shi Shuran (mother of Mr. Zhao Bing), 1% by Mr. Zhang Yonglu, 1% by Mr. Deng Xuejun (an executive Director), 1% by Mr. Meng Yuxiao (an executive Director) and 1% by Mr. Han Liren. Under the SFO, Mr. Zhao Bing is deemed to be interested in all the Shares held by Kemy.
- These Shares are registered in the name of Cathay, the entire issued share capital of which is owned by Cathay Capital Holdings, L.P., a private equity fund and a limited partnership with direct investment in the PRC. Cathay Capital Holdings, L.P. is managed by its general partner, Cathay Master GP, Ltd. Under the SFO, Cathay capital Holdings, L.P. and Cathay Master GP, Ltd. are deemed to be interested in the Shares held by Cathay.
- These Shares are registered in the name of Wakee, the entire issued share capital of share is legally and beneficially owned by Ms. Ou Shujin, the spouse of Mr. Song Zhiping. Under the SFO, Mr. Song Zhiping is deemed to be interested in all the Shares held by Ms. Ou Shujin.

**6. Disclaimers**

Save as disclosed in this prospectus, as at the Latest Practicable Date:

- (a) Our directors were not aware of any person (not being a director or chief executive of our company) who would, immediately after completion of the Global Offering (taking no account of the Over-allotment Option, the Capitalization Issue or any Shares which may be taken up under the Global Offering or any exercise of any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who would, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our company or any other member of our Group;
- (b) None of our directors had any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Issues, in each case once the Shares are listed on the Stock Exchange;
- (c) None of our directors nor any of the parties listed in the section headed “Consents” of this Appendix was interested in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our company or any of its subsidiaries, or were proposed to be acquired or disposed of by or leased to our company or any of its subsidiaries;
- (d) None of our directors nor any of the parties listed in the section headed “Consents” of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to our Group’s business;
- (e) Save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Consents” of this Appendix:
  - (i) were interested legally or beneficially in any securities of any member of our Group;  
or
  - (ii) had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) None of our directors or their associates nor, to the knowledge of the directors, any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest customers of our Group;
- (g) None of our directors or their associates nor, to the knowledge of our directors, any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest suppliers of our Group; and

- (h) None of our directors had entered into or was proposing to enter into a service contract with our company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### **D. PRE-IPO SHARE OPTION SCHEME**

The principal terms of the Pre-IPO Share Option Scheme, conditionally approved and adopted by ordinary resolutions of the shareholders of our company on June 3, 2011, are substantially the same as the terms of the Share Option Scheme (where applicable) except for the subscription price per Share, which shall be the Offer Price.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme (i.e. 21,600,000 Shares based on 1,200,000,000 Shares in issue as at the Listing Date) and Shares which may be issued pursuant to the exercise of the Over-allotment Option.

Options have been granted under the Pre-IPO Share Option Scheme to reward certain directors and employees of our Group for their past and future contributions to our Group and to encourage them to work towards enhancing the value of our company and its Shares for the benefit of our company and our Shareholders as a whole. As at the Latest Practicable Date, in consideration of HK\$1.00 from each grantee, options to subscribe for an aggregate of 21,600,000 Shares at a subscription price equal to the Offer Price had been granted to three grantees under the Pre-IPO Share Option Scheme, representing an aggregate of 1.8% of the issued share capital of the company immediately after the Global Offering (without taking into account the exercise of the Over-allotment Option).

The Pre-IPO Share Option Scheme will remain in force for a period commencing on June 3, 2011 and expiring on the day immediately prior to the Listing Date, after which period no further options will be granted under the Pre-IPO Share Option Scheme, but the provisions of the Pre-IPO Share Option Scheme shall in all other respects remain in full force and effect and options granted under the Pre-IPO Share Option Scheme during its life may continue to be exercisable in accordance with the Pre-IPO Share Option Scheme and their terms of issue.

Options granted pursuant to the Pre-IPO Share Option Scheme will vest over three years or at the rate of one-sixth of the options granted every six months from the date which the grantees may exercise options granted to them.

Subject to the relevant vesting period, each option has a 3-year exercise period from the date of the offer of the option. The grantees may not exercise the options that have been granted to them during any period after the Listing Date if such exercise by them would render the public float of our company falling below 25%, or any other minimum public float percentage as prescribed under the Listing Rules.



The options granted pursuant to the Pre-IPO Share Option Scheme are not transferable nor assignable. Save for the number of Shares which may be subscribed for pursuant to the exercise of options and the vesting periods of the options granted, each option so granted under the Pre-IPO Share Option Scheme has the same terms and conditions.

Particulars of the options that have been granted to directors and senior management of our Group who may acquire Shares under the Pre-IPO Share Option Scheme are set out as follows:

Name of the grantee	Relationship with our group	Residential address	Date of grant	Number of Shares to be issued subject to the option	Exercise price	Percentage of the Shareholding upon the full exercise of the option (Note)
Meng Yuxiao	Executive director of our company and Vice General Manager of Sifang Telecom	No. 502, Unit 1 No. 27 Jingying Road, Qiaoxi District, Shijiazhuang, Hebei, China	June 3, 2011	7,200,000	Offer Price	0.59
Deng Xuejun	Executive director of our company and Vice General Manager of Sifang Telecom	No. 907, Building 1, No. 269 Zhongsan Donglu, Chang'an District, Shijiazhuang City, Hebei, China	June 3, 2011	7,200,000	Offer Price	0.59
Hung Randy King Kuen	Executive director, Chief Financial Officer and Company Secretary of our company	Flat 4, 13/F, Block B Ventris Place 19-23 Ventris Road, Happy Valley, Hong Kong	June 3, 2011	7,200,000	Offer Price	0.59

Note: These percentages are calculated on the basis of 1,221,600,000 Shares in issue immediately following the completion of the Global Offering and the full exercise of the options granted under the Pre-IPO Share Option Scheme but do not take into account any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme.

Assuming that the Over-allotment Option is not exercised, the shareholding structure of our company before and after the exercise of all the options granted under the Pre-IPO Share Option Scheme in full will be as follows:

Shareholders	Shareholding structure immediately after completion of the Global Offering and the Capitalization Issue but before the exercise of all the options granted under the Pre-IPO Share Option Scheme		Shareholding structure immediately after completion of the Global Offering and the Capitalization Issue and exercise of all the options granted under the Pre-IPO Share Option Scheme	
	Shares	%	Shares	%
Existing Shareholders <sup>(1)</sup>	794,000,000	66.17	794,000,000	65.00
Grantees under the Pre-IPO Share Option Scheme <sup>(2)</sup>	–	–	21,600,000	1.77
Other public Shareholders	406,000,000	33.83	406,000,000	33.23
<b>Total:</b>	<b>1,200,000,000</b>	<b>100.00</b>	<b>1,221,600,000</b>	<b>100.00</b>

Note:

- (1) The existing Shareholders are Kemy, Cathay, Wakee and Mr. Gong Hongyu.
- (2) Messrs. Meng Yuxiao, Deng Xuejun and Hung Randy King Kuen, each an executive Director, have each been granted options in relation to 7,200,000 Shares under the Pre-IPO Share Option Scheme. Separately, both Meng Yuxiao and Deng Xuejun are shareholders of Kemy, one of our existing Shareholders and our Controlling Shareholders.

The options issued under the Pre-IPO Share Option Scheme represent 1.80% of our company's enlarged issued share capital as at the Listing Date. If all options are exercised, this would have a dilutive effect of 1.77% on the unaudited pro forma forecast earnings per Share for the six months ending June 30, 2011 upon Listing, assuming the market price of the Shares exceeds the Offer Price upon Listing. There will be no dilutive effect on the unaudited pro forma estimate earnings per share if the market price of the Shares is equal or lower than the Offer Price upon Listing. However, as the options are exercisable for a period of 10 years, any such dilution and impact on earnings per Share will be staggered over several years. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

The grantees of the Pre-IPO Share Option Scheme have undertaken to our company that they will not exercise the options granted under the Pre-IPO Share Option Scheme to such extent that the Shares held by the public (as defined in the Listing Rules) after the Global Offering and Capitalization Issue will fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

Save as disclosed in the table above, no options have been granted or agreed to be granted by the company under the Pre-IPO Share Option Scheme as at the Latest Practicable Date. No option will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

**E. SHARE OPTION SCHEME**

1. The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the shareholders passed on June 3, 2011. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

**(a) Purpose of the scheme**

The purpose of the Share Option Scheme is to reward employees for their past and future contributions to our Group, to aid our company in retaining key and senior employees of our company and to encourage the employees to work toward enhancing the value of our company and our Shares for the benefit of our company and our shareholders as a whole.

**(b) Who may join**

The directors may, at their absolute discretion, invite any full-time or part-time employees, executives or officers of our company or any member of our Group (including executive, non-executive directors and independent non-executive directors), advisors and consultants of our Group to take up options to subscribe for Shares (each, an “**Eligible Employee**”).

**(c) Maximum number of Shares**

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme when aggregated with the maximum number of Shares in respect of any options to be granted under any other share option scheme established by our company is that number which is equal to 10 per cent. of the issued share capital of our company immediately following the commencement of dealings in the shares on the Stock Exchange.

**(d) Maximum entitlement of each participant**

No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1 per cent. of the issued share capital of our company from time to time.

**(e) Grant of options to related persons**

An offer of the grant of an option to a director, chief executive or substantial shareholder (other than a proposed independent non-executive director) of our company or any of their respective associates must be approved by the independent non-executive directors of our company, other than the independent non-executive director who is offered the option in question (if applicable). Where any grant of options to a substantial shareholder or an independent non-executive director of the company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and

- (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by the shareholders of our company.

**(f) Time of acceptance and exercise of option**

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An offer is deemed to be accepted when our company receives from the grantee a duplicate of the offer letter signed by the grantee specifying the number of shares in respect of which the offer is accepted, and a remittance to our company of HK\$1.00 as consideration for the grant of option.

An option may be exercised in whole or in part in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made (the “**Offer Date**”) and in any event shall end not later than ten years from the Offer Date but subject to the provisions for early termination contained in the Share Option Scheme.

**(g) Performance targets**

Unless the directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

**(h) Subscription price for Shares**

The subscription price in respect of any option granted under the Share Option Scheme shall be a price determined by the board and notified to the relevant employee, which shall be the higher of (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the relevant offer date in respect of the relevant option, or (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheets for the five trading days immediately preceding the relevant offer date in respect of the relevant option or where the company has been listed for less than five trading days, the new issue price shall be used as the closing price, or (iii) the nominal value of the Shares.

**(i) Ranking of Shares**

Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Memorandum of Association and the Articles of Association of the company and the Cayman Companies Law for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

**(j) Restrictions on the time of grant of options**

Any grant of options must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published or disclosed in accordance with the requirements of Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period; and
- (ii) the deadline for the company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period,

and ending on the date of the results announcement, no option may be granted. For the avoidance of doubt, the period during which no option may be granted will cover any period of delay in the publication of a results announcement.

The directors may not grant any option to a participant who is a director during the periods or times in which directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the company.

**(k) Period of the Share Option Scheme**

Subject to early termination in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional and takes effect in accordance with its terms.

**(l) Rights on ceasing employment**

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death or termination of his officer or employment on one or more of the grounds specified in paragraph (n) below, the grantee may exercise the option up to his entitlement (to the extent not already exercised) within a period of 12 months from the date of his last actual working day with our company or our Group, whether salary is paid in lieu of notice or not.

**(m) Rights on death, ill-health or retirement**

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment and none of the events which would be a ground for termination of his employment under paragraph (n) has arisen before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months (or such longer period as the directors may determine) following the date of cessation which date shall be the last day on which the grantee was at work with our company or a subsidiary of our company, whether salary is paid in lieu of notice or not.

**(n) Rights on dismissal**

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of termination of his office or employment on any one or more of the grounds that the grantee has been guilty of persistent or serious misconduct, or has been convicted of any criminal offence involving his integrity or honest, options granted will lapse automatically and will not in any event be exercisable (to the extent not already exercised) on or after the date of cessation.

**(o) Rights on breach of contract**

If the directors at their absolute discretion determine that a grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part or that such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally, the option granted to the grantee under the Share Option Scheme will lapse automatically and will not in any event be exercisable on or after the date on which the directors have so determined.

**(p) Rights on a general offer**

If a general offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror and such offer becomes or is declared unconditional, the grantee (or his legal representative(s)) shall be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the company in exercise of his option at any time within 14 days after the date on which such general offer becomes or is declared unconditional. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

**(q) Rights on winding up**

In the event of an effective resolution being passed for the voluntary winding-up of the company or an order of the court is made for the winding-up of the company, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the company within 21 days after the date of the winding-up notice from the company, elect to be treated as if the option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the grantee's notice, such notice to be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation pari passu with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election.

**(r) Rights on a compromise or arrangement**

In the event of a compromise or arrangement between the company and its shareholders or creditors being proposed in connection with a scheme for the reconstruction of the company or its amalgamation with any other company or companies, the company shall give notice thereof to the grantee on the same day as it gives notice of the meeting to its shareholders or creditors to consider such compromise or arrangement, and thereupon the grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Scheme) as if such compromise or arrangement had not been proposed by the company and no claim shall lie against the company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

**(s) Adjustments to the subscription price**

In the event of a capitalization issue, rights issue, sub-division or consolidation of Shares or reduction of share capital of the company whilst an option remains exercisable, such corresponding adjustments (if any) certified by the auditors for the time being of the company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the Share Option Scheme and the option so far as unexercised and/or the subscription price provided that (i) any adjustments shall give a grantee the same rights over the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as consideration in a transaction shall not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors must confirm to the directors in writing that the adjustments satisfy the requirement of the relevant provision of the Listing Rules and the supplemental guidance issued by the Stock Exchange on September 5, 2005 and any future guidance/interpretation of the Stock Exchange from time to time.

**(t) Cancellation of options**

Where any option is cancelled and new option is intended to be granted to the same grantee there must have available unissued options (excluding such cancelled options) for such re-issuance under the maximum number of Shares as set out in paragraph (c) above.



**(u) Termination of the Share Option Scheme**

Our company may by resolution in a general meeting or our board may at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

**(v) Rights are personal to the grantee**

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option.

**(w) Alterations of the Share Option Scheme**

- (i) The terms and conditions of the Share Option Scheme may be altered by resolution of the directors except that the provisions relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees or prospective grantees of the options except with the approval of the shareholders in general meeting, with the grantees and their associates abstaining from voting.
- (ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must first be approved by the shareholders of the company in a general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iii) Any change to the authority of our directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of the company in a general meeting.

**2. Present Status of the Share Option Scheme**

The Share Option Scheme is conditional on the Listing Committee granting approval of the listing of, and permission to deal in, the Shares to be issued as mentioned therein and is also conditional on the Global Offering taking place.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme (i.e. 120,000,000 Shares based on 1,200,000,000 Shares in issue as at the Listing Date) and Shares which may be issued pursuant to the exercise of the Pre-IPO Share Option Scheme and Over-allotment Option.

## F. OTHER INFORMATION

### 1. Tax and other indemnities

Kemy, Mr. Zhao Bing and Ms. Shi Shuran (together, the “**Indemnifiers**”), have entered into a deed of indemnity in favor of our Group (being a material contract referred to in the paragraph headed “Summary of material contracts” of this Appendix) to provide the following indemnities in favor of our Group. Our directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

Under the deed of indemnity, amongst others, the Indemnifiers will jointly and severally indemnify each of the members of the Group against (a) taxation falling on any member of the Group resulting from or by reference to any income, profits or gains accrued or received (or deemed to be so earned, accrued or received) on or before the date when the Global Offering becomes unconditional; (b) any costs, expenses and operating and business losses arising from the relocation of the business or assets from any property owned, leased, rented, occupied in the event any member of the Group is not being permitted to use or occupy or being evicted from such property due to non-compliance with PRC laws and regulations on or before the date when the Global Offering becomes unconditional; (c) any costs, expenses and operating and business losses arising from any business disruption attributable to, or failure of compliance with relevant PRC laws and regulations by any member of our Group which has not obtained the necessary approvals for its operations; (d) any costs, expenses and operating and business losses arising from third-party infringement of our intellectual property rights; (e) all damages, losses and liabilities which might be suffered or incurred by any member of our Group resulting from or in connection with any litigation, legal actions or other proceedings in which any member of our Group is named a party or is otherwise involved in on or before the date when the Global Offering becomes unconditional; and (f) any liabilities arising from or in connection with breach of any applicable laws or regulations on or before the date when the Global Offering becomes unconditional. The Indemnifiers further jointly and severally undertake to indemnify each of the members of the Group on demand against any of the foregoing losses, damages, costs or expenses.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision has been made for such taxation in the audited accounts of the Group; and (b) the taxation arises or is incurred as a result of a retrospective change in law or regulation or the interpretation thereof or practice by the relevant tax authority coming into force after the date on which the Global Offering becomes unconditional or to the extent that the taxation arises or is increased by an increase in rates of taxation as a result of a change in law or regulation or interpretation thereof or practice by the relevant tax authority after the date on which the Global Offering becomes unconditional with retrospective effect.

### 2. Litigation

As at the Latest Practicable Date, save as disclosed in “Business – Legal Compliance and Proceedings,” no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our directors to be pending or threatened by or against any member of our Group that would have a material adverse effect on our Group’s results of operations or financial condition.

**3. Preliminary expenses**

The preliminary expenses incurred by our company was US\$1,980 and were paid by our company.

**4. Sole Sponsor**

The Sole Sponsor has made an application on behalf of our company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue as mentioned in this prospectus and any Shares falling to be issued pursuant to the Global Offering, the exercise of the Over-allotment Option, and any options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

**5. No material adverse change**

Our directors believe that there has been no material adverse change in the financial or trading position of our Group since December 31, 2010 (being the date on which the latest audited combined financial statements of our Group was made up).

**6. Compliance advisor**

Our company will appoint China Merchants Securities (HK) Co., Ltd. as our compliance advisor upon Listing in compliance with Rule 3A.19 of the Listing Rules.

**7. Agency fees or commissions received**

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted to the directors or any of the persons whose names are listed in the paragraph headed "Consents" in this Appendix in connection with the issue or sale of any share or loan capital of our company or any of its subsidiaries.

**8. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**9. Registration procedures**

Subject to the provisions of the Cayman Companies Law, our register of members will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited.

**10. Qualifications of experts**

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
BOCI Asia Limited	Licensed to conduct Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
Ernst & Young	Certified Public Accountants
Grandall Legal Group	PRC legal advisor
Maples and Calder	Cayman Islands legal advisors
Jones Lang LaSalle Sallmanns Limited	Professional property valuer
Lurie & Park	U.S. legal advisor

**11. Consents**

Each of BOCI Asia Limited, Ernst & Young, Grandall Legal Group, Maples and Calder, Jones Lang LaSalle Sallmanns Limited and Lurie & Park has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As at the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the section headed “Qualifications of experts” in this Appendix had any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

**12. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

**13. Particulars of Selling Shareholders and Over-allotment Selling Shareholder****(a) Particulars of Selling Shareholders**

<b>Name</b>	<b>Registered Address</b>	<b>Description</b>	<b>Number of Sale Shares</b>
Cathay	Offshore Incorporations Limited P.O. Box 957 Offshore Incorporations Centre Road Town Tortola British Virgin Islands	A company incorporated under the laws of the British Virgin Islands	70,000,000
Wakee	CARD Corporate Services Ltd. of Zephyr House 122 Mary Street P.O. Box 709 Grand Cayman KY1-1107 Cayman Islands	A company incorporated under the laws of the Cayman Islands	36,000,000

**(b) Particulars of Over-allotment Selling Shareholder**

<b>Name</b>	<b>Registered Address</b>	<b>Description</b>	<b>Number of Over-allotment Sale Shares</b>
Kemy	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands	A company incorporated under the laws of the Cayman Islands	36,000,000

**14. Miscellaneous**

(a) Save as disclosed in this prospectus:

- (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of our company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) neither our company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (iv) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our company;
- (v) none of the equity and debt securities of our company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (vi) our company has no outstanding convertible debt securities or debentures.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section headed “Appendix VI – Statutory and General Information – Other information – Consents” in this prospectus, copies of the material contracts referred to in the section headed “Appendix VI – Statutory and General Information – Further information about the business of our company – Summary of our material contracts” in this prospectus, and a statement of the names, descriptions and addresses of the Selling Shareholders referred to in the section headed “Appendix VI – Statutory and General Information – Other information – Particulars of the Selling Shareholders and Over-allotment Selling Shareholder” in this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Stevenson, Wong & Co., 4th Floor & 5th Floor, Central Tower, 28 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the letter prepared by Ernst & Young relating to the unaudited pro forma financial information of our company, the text of which is set out in Appendix II to this prospectus;
- (d) the letters relating to the profit forecast of our company for the six months ending June 30, 2011, the text of which are set out in Appendix III to this prospectus;
- (e) the full valuation report relating to the property interests of our company prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix IV to this prospectus;
- (f) the letter of advice dated the date of the prospectus prepared by Maples and Calder, our legal advisor on Cayman Islands laws, summarising certain aspects of the Cayman Companies Law referred to in Appendix V to this prospectus;
- (g) the PRC legal opinion dated the date of the prospectus issued by Grandall Legal Group, our PRC legal advisor;
- (h) the U.S. legal opinion on the SEC Lawsuit and the U.S. Lawsuit dated the date of the prospectus issued by Lurie & Park, our U.S. legal advisor;
- (i) copies of material contracts referred to under the section headed “Appendix VI – Statutory and General Information – Further information about the business of our company – Summary of our material contracts” in this prospectus;
- (j) the written consents referred to under the section headed “Appendix VI – Statutory and General Information – Other information – Consents” in this prospectus;

- (k) the service contracts and letters of appointment referred to under the paragraph headed “Appendix VI – Statutory and General Information – Further information about our directors – Particulars of service contracts” in this prospectus;
- (l) the Cayman Companies Law;
- (m) the rules of the Pre-IPO Share Option Scheme;
- (n) the rules of the Share Option Scheme; and
- (o) the statement of particulars of the Selling Shareholders including their respective names, addresses and descriptions.





中國光纖網絡系統集團有限公司\*  
China Fiber Optic Network System Group Ltd.