RISKS RELATING TO OUR BUSINESS

Our result of operations for the nine months ended 30 September 2010 were adversely affected as a result of the decline in the wireless infrastructure investment in the PRC.

According to the information from Ministry of Industry and Information Technology of the PRC, wireless infrastructure investment in the PRC has experienced a decline in the first six months of 2010 due to the reduction in capital expenditure by the PRC's three major telecommunications operators. As a result, our revenue decreased RMB357.5 million from RMB1,222.9 million for the nine months ended 30 September 2009 to RMB865.4 million for the nine months ended 30 September 2010. Accordingly, our net profit decreased RMB27.9 million to RMB79.3 million for the nine months ended 30 September 2010 compared to RMB107.2 million for the nine months ended 30 September 2009.

Our Group expects such slowdown in demand for our products induced by reduction in capital expenditure by the three telecommunications operators will continue for the rest of 2010, resulting in the decrease in our revenue and net profits for the year ending 31 December 2010.

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 crisis had led 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 and depressed consumer sentiments deep into the first half of 2009. The slowdown experienced in the economies of the United States, the European Union and certain Asian countries adversely affected the capital expenditures of the telecommunications operators in different countries. The resulting decrease and slowdown in demand for mobile communications infrastructure equipment has put significant downward pressure on prices of these products, including RF coaxial cables, which are our major source of sales revenues.

Our business model is very sensitive to the spending cycle of the telecommunications operators, and without a recovery in consumer usage, downward pressure on prices and demand for our products will persist. If the global economy continues to grow at a slower rate than expected or experiences a recession, growth in demand for the mobile communications infrastructure products will also continue to slow down or decrease. As a result, our business, financial condition and results of operations would continue to be adversely affected.

During the three years ended 31 December 2009, the average unit selling prices of our RF coaxial cables series for mobile communications were on a downward trend. This is mainly due to intense competition which led to selling price under pressure as players lower their prices during tenders in order to win the bid. If the downward trend of the average selling prices of our RF coaxial cables persists, it may lead to decreased revenue and may have an adverse effect on our profits and our profitability.

For the nine months ended 30 September 2010, the average monthly unit selling prices of RF coaxial cables series for mobile communications increased by approximately 13.1% as compared to the corresponding period for 2009. However, the sales volume of RF coaxial cables series for mobile communications decreased by approximately 37.5% for the same period. The decrease in revenue was primarily due to the decrease in demand for our products from the three telecommunications operators in the PRC as a result of their reduction in capital expenditure in 2010. Our Group expects the fall in demand for our products will continue for the rest of 2010, resulting in the decrease in our revenue and net profits for the year ending 31 December 2010.

We are dependent on our major customers.

We are dependent on our major customers, the China Unicom group of companies, the China Mobile group of companies, and the China Telecom group of companies. We sell our products to these major customers by winning their purchasing bids. Currently, we have entered into framework agreements with China Unicom, China Mobile and China Telecom respectively and have also entered into contracts with individual subsidiaries of each of China Unicom, China Mobile and China Telecom. Therefore, we rely on and expect to continue to rely on these major customers for a significant portion of our revenues. For each of the [●], revenue arising from sales to the China Unicom group of companies, the China Mobile group of companies and the China Telecom group of companies in aggregate accounted for 66.5%, 64.8%, 76.2% and 72.0% of our total revenue, respectively. We anticipate that the revenue derived from these major customers will continue to represent a significant proportion of our revenue in the future. If these major customers delay their capital expenditure plan or reduce their current capital expenditure level, our business and financial performance will be materially and adversely affected. If these major customers delay their payment or unexpectedly extend their credit terms, our financial performance and operating cash flow will be adversely affected.

On the other hand, there is no assurance that we will continue to retain our key customers and that they will maintain or increase their current level of business with our Group. In the event of any cancellation, delay or reduction in the scope of our existing business to any of these key customers or if we lose any of our key customers, our business and financial performance will be adversely affected.

We are dependent on our sales and distribution network.

Over the years, we have built a strong sales and marketing team, consisting of 55 experienced sales personnel. To effectively serve our customers in the various markets and ensure efficient allocation of resources, our sales and marketing team comprises two main business units – market development department and overseas business department. Our sales personnel, strategically located throughout the PRC, are able to effectively market our products to our customers. In addition, they are trained to provide good pre-sales, during sales and after sales services to all of our customers to ensure that we foster a close and strong working relationship with our customers. There is no guarantee that we can keep on developing and enhancing our sales and distribution network, maintain key sales personnel, successfully maintain our existing customers and attract new customers. Any failure in these areas may have adverse effects on our business and financial performance.

We are dependent on our product quality, good reputation and brand name.

We believe that our "HongSun" brand is a well-recognised brand of coaxial cables in the PRC and one that is associated with good quality products. This is evidenced by the various awards which we have received in recognition of our products. Please refer to the paragraph headed "Awards and Honors" under the section headed "Business" for further details of our awards and accreditations. If we are not able to maintain the high quality profile, we may lose our market share and our business and financial performance may be affected adversely.

Failure to meet the prescribed industry technical standards in the industries and markets we serve may attract product liability claims and may adversely affect our business and financial performance.

Our RF coaxial cables are required to meet the industry technical standards set by the relevant PRC authorities. For further details, please refer to the paragraph headed "Quality Control" under the section headed "Business" in this document. If our RF coaxial cables are exported and sold to other countries outside the PRC, our RF coaxial cables are required to meet various industry technical standards prescribed by the countries where our customers are based. Such standards vary according to the industries and markets we serve, and may vary from country to country. We have to ensure that our products adhere to, or even surpass, such standards. Any changes in these prescribed standards will affect our sales if our products do not meet the new standards. In addition, considerable research and development costs will be incurred to ensure our products are in compliance with the new standards. There is no assurance that our products will continue to be compliant with the technical standards in the future. If we fail to meet the prescribed industry technical standards in the industries and markets we serve, we may attract product liability claims and any successful product liability claims against us may adversely affect our financial performance and business.

We are subject to risks associated with technological changes.

We are engaged in an industry where technology changes play a critical role in influencing the demand for our products and services. Technological advances may render certain of our products and processes obsolete. For instance, currently, fibre cables could be used as substitute products for RF coaxial cables to be installed in the base stations for 3G network using TD-SCDMA protocol. However, RF coaxial cables are still widely used in all other base stations for 3G network using WCDMA protocol or CDMA2000 protocol, all base stations for 2G network and all indoor wireless signal coverage system in buildings. In general, WCDMA or CDMA2000 base stations require a batch of RF coaxial cables to transmit signals between base station equipment and antenna. TD-SCDMA base stations adopt a special solution that, the transmission of signals between base station equipment and antenna is separated into two parts: one part relies on a piece of fibre cable to transmit signals between base station equipment and a special equipment, while another part still relies on a batch of RF coaxial cables to transmit signals between the said special equipment and antenna. By using one single piece of fibre cable in part of the transmission of signals instead of a batch of RF coaxial cables, the production cost of base stations may be reduced and the transmission loss may be reduced. Currently, China Mobile establishes its 3G network using TD-SCDMA protocol, while each of China Unicom and China Telecom establishes its 3G network using

WCDMA protocol or CDMA2000 protocol. At the end of June 2010, China Mobile had about 115,000 3G base stations, China Unicom had about 153,000 3G base stations and China Telecom had the widest 3G network coverage in the PRC.

Thus, our ability to anticipate changes in technology and to keep in pace with such changes, to introduce new and enhanced products on a timely basis, will be significant factors in our ability to grow and to remain competitive. We have to commit time, effort and other resources to the research and development of new products to meet changing market demands. However, rapid changes in market demand may render our research and development efforts obsolete as we may not achieve the technological advances necessary to enable us to keep pace with the industry. Accordingly, we cannot assure that the results of our research and development efforts will attain market acceptance or that such efforts will be commercially successful or that certain of our products and processes will not become obsolete. In such event, our financial condition may be adversely affected.

In addition, we are subject to the risks generally associated with new product introductions and applications, including the lack of market acceptance, delays in development or failure of products to operate properly. In the event that our competitors are able to develop more advanced products, which can better cater to our customers' needs, we may not be able to maintain our competitive edge and our profits may be adversely affected.

We are exposed to risks arising from credit terms extended to our customers.

We are exposed to payment delays and/or defaults by our customers who are granted credit terms. As at 30 September 2010, our net trade debtors balance was approximately RMB700.7 million, which accounted for approximately 66.5% of our total current assets. Therefore, our financial position and profitability are dependent on the creditworthiness of our customers. Generally, we allow credit period of 180 days to our trade customers. Average trade receivables turnover days for each of the [●] were 179 days, 151 days, 147 days and 229 days, respectively. The significant increase in trade receivables turnover days for the nine months ended 30 September 2010 is principally attributable to the increase in the trade receivables due over 360 days as at 30 September 2010 from one major customer who is one of the three principal telecommunications operators in the PRC. To the best knowledge of our Directors, similar to other two telecommunications operators, this telecommunications operator will settle our bill in two stages according to the payment terms as stipulated in the related framework agreement. At first stage, a portion of our bill is to be settled upon the receipt of our products. At second stage, the remaining portion will be settled upon the passing of final testing of the construction of their network infrastructures such as base stations in which our products form a part. During the nine months ended 30 September 2010, our Directors were given to understand that the related network infrastructures of this telecommunications operator in which our products are used had a relatively longer construction period and the final testing was still under progress. As such, there was a slower bill payment from this telecommunications operator during the period.

There is no guarantee on the timeliness of our customers' payments and whether they will be able to fulfil their obligations. Any inability on the part of our customers to settle promptly such amounts due to us may have a material adverse impact on our financial performance and operating cash flow.

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

Our key raw materials comprise copper-based materials and PE. Copper-based materials form approximately 78.7%, 73.8%, 64.7% and 75.3% of our total purchases for each of the [●], respectively. PE for the same periods form approximately 10.1%, 12.3%, 11.8% and 10.9% of our total purchases, respectively. To better control our inventory risk, we generally procure our key raw materials based on purchase orders.

We rely on third-party suppliers to meet our raw material requirements. Contracts are awarded through a competitive bidding process. Selections are made based on objective criteria. We generally award contracts to suppliers that submitted the most favorable bids. For further details, please refer to the paragraph headed "Raw Materials and Purchases" under the section headed "Business" in this document.

As we purchase our raw materials from local suppliers and foreign suppliers with distribution network in the PRC, an increase in the prices or a shortage of our raw materials in the PRC will lead to increased costs and may have a significant impact on our profits and our profitability. There is no assurance that we will be able to pass on such cost rise to our customers or find an alternative source of supply. In the event that we are not able to do so, our earnings and financial performance may be adversely affected.

Further, if any of our suppliers is unable to deliver raw materials required in time for production, and we fail to meet our raw material requirements with purchases from other suppliers in a timely and cost-effective manner, our production could be delayed. Our relationships with our customers could be adversely affected as a result of any of such delays, which could materially and adversely affect our business and financial performance.

Our inability to attract, retain and motivate skilled engineers, research personnel and our key management may adversely affect our business operations.

Due to the specialized nature of our business, our success is to a certain extent attributable to our skilled engineers and research personnel. If we are unable to retain and/or recruit a sufficient number of adequately skilled engineers and research personnel, our business would be adversely affected.

We are also dependent on the continued efforts of our key management, in particular, our Chairman, Mr. Cui and the senior management team. Our continued success is to a large extent attributable to our ability to retain their services.

In 2010, there was a change in the senior management of Hengxin (Jiangsu), the major operating subsidiary of our Group. Mr. Xu Guochen resigned as the vice chairman, director and general manager of Hengxin (Jiangsu) with effect from 18 January 2010 while Mr. Zhu Xujun ("**Mr. Zhu**") resigned as the head of production of Hengxin (Jiangsu) with effect from 31 May 2010 and Mr. Xu Zhijun ("**Mr. Xu**") resigned as the head of research and development of Hengxin (Jiangsu) with effect from 5 July 2010. Our Directors are of the view that the resignation of Mr. Xu Guochen, Mr. Zhu and Mr. Xu does not have material adverse effect on the operation and management of our Company. Hengxin (Jiangsu) made timely replacements by appointing appropriate and experienced personnel with relevant expertise to take over Mr. Xu Guochen, Mr. Zhu and Mr. Xu. If there is no timely replacement in response to the loss of any member of our experienced management team, there may be an adverse effect on our business operations and financial performance.

There are defects in the legal title of part of the land occupied by our production base and a new production plant erected thereon.

Among the buildings erected on our production base at No. 138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, PRC, workshop no. 5 ("**Workshop No. 5**") was built on a piece of land with a total site area of approximately 19,947 sq.m (the "**Land**"). Workshop No. 5 is a new production plant, which has been commenced operation in October 2010. It is equipped with a maximum annual production capacity of 33,060 km, representing approximately 32.2% of our existing production capacity. During the [●], Workshop No. 5 has not commenced production and no revenue has been generated from it. Furthermore, a new building being a centre for the research and development of RF coaxial cables (the "**R&D Centre**") is currently under construction, a substantial part of which is located on the Land. The construction of the R&D Centre commenced in [September 2010] and is expected to be completed in or around [April 2011].

On 2 February 2007, Ruidi sued Hengxin (Jiangsu) in the Yixing Court for [infringement of its property rights of the Land]. Ruidi requested that Hengxin (Jiangsu) should cease to infringe on its property rights, return the land use right of the Land to Ruidi, and pay Ruidi fees for having used the Land. On 3 July 2008, the court case was discontinued at Ruidi's own accord upon approval by the Yixing Court. But on the same day Ruidi started a fresh suit against Hengxin (Jiangsu) on substantially the same subject matter and same ground. On 11 October 2008, the Yixing Court pronounced its ruling that the suit should be suspended pending the outcome of another administrative lawsuit taken out by the former shareholder of Ruidi against the Foreign Investment Management Committee of Yixing City (宜興市對外經濟貿易委員會). On 2 November 2010, the court case was discontinued at Ruidi's own accord upon approval by the Yixing Court. But Ruidi started a fresh suit against Hengxin (Jiangsu) on substantially the same subject matter and same ground. The Yixing Court issued the Notice of Responding to Action (應訴通知書)(1) to Hengxin (Jiangsu) on 10 November 2010.

Note 1: When a court accepts a lawsuit filed by a plaintiff, the court will issue a Notice of Responding to Action to the defendant. Such a Notice of Responding to Action informs the defendant the complaint filed by the plaintiff usually with the attachment of the indictment and relevant evidences submitted by the plaintiff and the time limit for the defendant to respond to the lawsuit with a written answer to complaint and relative evidences.

On 20 June 2009, the Yixing Municipal People's Government convened a meeting among Hengxin (Jiangsu), Ruidi's lawyer, the representatives of Yixing Land and Resources Bureau and other relevant parties to resolve the disputes over the Land (the "**Meeting**"). The discussion in the Meeting was recorded in Yiji [2009] No. 53: Minutes of a meeting convened by the Yixing Municipal People's Government in respect of disputes over land and buildings between Jiangsu Hengxin Technology Co., Ltd and Yixing Ruidi Copper Co., Limited (宜紀[2009]53號 《宜興市人民政府關於江蘇亨鑫科技有限公司與宜興瑞迪銅業有限公司有關土地公寓處置問題的協調會議紀要》) (the "**Minutes**").

It was stated in the Minutes that

(i) Since Ruidi had not carried out any development on the Land for a period longer than that is permitted under the relevant laws and regulations, the Land should be resumed by the Yixing Municipal People's Government. Ruidi agreed to the above, but Ruidi disputed over the compensation payable in respect of the resumption of the Land.

(ii) It was agreed that Yixing Land and Resources Bureau should designate a land appraisal agency to assess the market value of the Land. Then Yixing Land Purchase and Reserve Centre (宜興市土地收購儲備中心) would acquire the Land and compensate Ruidi with such amount as in proportion to the land use right of the Land. Such compensation should be deposited in an account under the government's control, and be released until an internal consensus has been reached or according to court's rulings.

(iii) Since the Land was immediately adjacent to Hengxin (Jiangsu)'s production base and Hengxin (Jiangsu) urgently needed the Land for its expansion, thus it was agreed that the Land would be listed for auction after it is resumed by Yixing Land Purchase and Reserve Centre (宜興市土地收購儲備中心), and Hengxin (Jiangsu) would have priority over other bidders on the same conditions.

Based on the understanding that Ruidi agreed to Yixing Municipal People's Government's resumption of the Land as set out in the Minutes, we commenced the preliminary preparatory works in July 2009, such as purchase of raw materials and signing of construction contracts, and then commenced the construction of Workshop No. 5 in October 2009. In September 2009, we obtained the relevant Construction Land Planning Permit and Construction Works Planning Permit from Yixing Municipal Planning Bureau. In December 2009, we obtained the relevant Building Construction Permit from Yixing Municipal Construction Bureau. Furthermore, regarding the construction of the R&D Centre, we obtained the relevant Construction Land Planning Permit in September 2009 and Construction Works Planning Permit from Yixing Municipal Planning Bureau in June 2010. In September 2010, we obtained the relevant Building Construction Permit from Yixing Municipal Construction Bureau.

On 18 August 2009, Hengxin (Jiangsu) entered into a management and service agreement (the "**Management Agreement**") with Jiangsu Yixing Ceramics Industrial Area Development Co., Limited (江蘇宜興陶瓷產業園區發展有限公司) (the "**Development Company**"). The Development Company was incorporated on 23 October 2002 in the PRC. As confirmed by the Management Committee of Jiangsu Yixing Ceramics Industrial Area (the "**Management Committee**"), (i) the Development Company is subordinate to the Management Committee and one of its principal activities is managing and providing services to enterprises located within Jiangsu Yixing Ceramics Industrial Area; (ii) the Management Committee is established with approval from National Development and Reform Commission and has the authority and is responsible for management of Jiangsu Yixing Ceramics Industrial Area on behalf of Dingshu Town Municipal People's Government of Yixing City. One of its principal responsibilities is management of land expropriation, demolition of houses erected on community owned land, lease and transfer of land use right of state-owned land within Jiangsu Yixing Ceramics Industrial Area, jointly with Yixing Land and Resources Bureau. According to Yizhengfa [2008] No.111 issued by Yixing Municipal People's Government: Opinion of Yixing Municipal People's Government in respect of disposal of idle land in practicable term (宜興市人民政府文件宜政發[2008]111號《市政府關於切實做好閒置土地處置工作的意見》), the Management Committee has the authority and is responsible for proposing the disposal measures and implementing the disposal measures with approval of Yixing Municipal People's Government, of any idle land within Jiangsu Yixing Ceramics Industrial Area. According to the Management Agreement, it was agreed that the Development Company would assist Hengxin (Jiangsu) to procure that the land use right in respect of the Land be granted to a new enterprise set up by Hengxin (Jiangsu) for industrial use at the consideration of RMB5.76 million, which will be paid by Hengxin (Jiangsu) and collected by the Development Company on behalf of the Management Committee. No other fees except the consideration of RMB5.76 million are payable by Hengxin (Jiangsu) to the Development Company.

As at the [●], the land transfer price in the amount of RMB5.76 million has been fully pre-paid to the Development Company, and the relevant civil works on the Land have been completed, checked and accepted. Despite the defects in the title of the Land set out below, the construction works of Workshop No. 5 has been completed, checked and accepted, and all necessary licences and approvals (except the land use right certificate) have been obtained. Production facilities have been installed in it, and test of the facilities has been finished. The total amount of our investment on the Land up to [30 September 2010] is approximately RMB5.76 million. The total investment on the building and the production facilities of Workshop No. 5 erected and installed on the Land up to [30 September 2010] is approximately RMB7.32 million and RMB23.32 million, respectively. The total investment on the R&D Centre erected on the Land up to [30 September 2010] is approximately RMB2.24 million.

However, as at the [●], Ruidi is still the registered owner of the Land according to the information obtained from [the relevant PRC authority], and Ruidi's land use right certificate has not been cancelled. Hengxin (Jiangsu) has not obtained the land use right certificate for the Land for the reasons set out below.

According to the our PRC legal advisers' analysis of the available documents obtained from the local government, Ruidi had not carried out any development on the Land for more than 2 years since June 2005. On 31 July 2009, the Management Committee thus notified Ruidi of its decision to regain possession of the Land. However, Ruidi was at the same time being sued by Hengtong Group Limited (亨通集團有限公司) and China Southern (Group) Hong Kong Limited (香港南中(集團)有限公司) (the "**Creditors**") for monies due to these Creditors (the "**Creditors' Proceedings**"), and in that course the Land was sequestrated by the Suzhou Intermediate People's Court in January 2008 upon the request of the Creditors. There is no realistic estimation when the Creditors' Proceedings will be adjudicated. Moreover, the Land was sequestrated by Yixing Court in February 2010 as Ruidi lost a lawsuit with Mr. Xia Jie and Mr. Sun Huxing for monies dispute. Mr. Xia Jie and Mr. Sun Huxing are shareholders of Yixing Spirit Investments Co., Ltd. For further details of Yixing Spirit Investments Co., Ltd., please refer to the paragraph headed "History and development of Hengxin (Jiangsu)" under the section of "History and Corporate Structure" in this document. As advised by our PRC legal advisers, Ruidi's land use right certificate cannot be cancelled until the sequestrations on the Land are discharged.

Based on our PRC legal advisers' opinion:

(i) Ruidi had not carried out any development on the Land for a period longer than that is permitted under the relevant laws and regulations and it also agreed to Yixing Municipal People's Government's resumption of the Land. It was upon this reasonable ground that we commenced the construction of Workshop No. 5. We were, therefore, not in breach of any applicable rules, regulations and laws of the PRC by virtue of alleged infringement of the Land owner's rights while the litigation outcome is not certain.

(ii) The Management Agreement entered into between the Development Company and Hengxin (Jiangsu) is legal, valid and enforceable.

(iii) If Ruidi prevails in the Creditors' Proceedings, the sequestration on the Land will be discharged. Yixing Municipal People's Government will be entitled to have the land use rights certificate in Ruidi's name cancelled, and regain possession of the Land. Then the relevant government authority in Yixing City will list the Land for auction. [According to the relevant government authority, Hengxin (Jiangsu) is entitled to take part in the auction and will have priority over other bidders on the same conditions. Nevertheless, there is no guarantee that Hengxin (Jiangsu) will obtain the Land at the auction. Even if the Hengxin (Jiangsu) wins at the auction, the auction price may be higher than the original consideration under the Management Agreement. In such case, Hengxin (Jiangsu) will be entitled to request the Development Company to make up for the difference between the actual auction price and the original consideration of RMB5.76 million, and compensate for all [other direct] losses and damages suffered by it.

(iv) If Ruidi loses in the Creditors' Proceedings, the sequestration on the Land will be upheld. The Creditors is entitled to apply to the court for the auction of the Land. Besides, Mr. Xia Jie and Mr. Sun Huxing are also entitled to apply to the court for the auction of the Land. Hengxin (Jiangsu) is entitled to take part in the auction, but there is no guarantee that Hengxin (Jiangsu) will obtain the Land at the auction. Even if Hengxin (Jiangsu) wins at the auction, the auction price may be higher than the original consideration under the Management Agreement. If Hengxin (Jiangsu) obtains the Land at the court auction, it is entitled to request the Development Company to make up for the difference between the actual auction price and the original consideration of RMB5.76 million and compensate for all other direct losses and damages suffered.

(v) If Hengxin (Jiangsu) is unable to obtain the land use right of the Land (whether it loses at the auction or a ruling was made against it in its lawsuit with Ruidi), it would be vulnerable to claim for infringement of the property rights of the Land in respect of its occupation of the Land and the construction of Workshop No.5. If the infringement is affirmed, Hengxin (Jiangsu) may be required to cease to infringe on the property rights of the Land, return the Land to its owner, demolish the buildings erected on the Land, and compensate the loss of the owner of the Land for such infringement. Hengxin (Jiangsu) is entitled to request the Development Company to refund all monies paid and compensate Hengxin (Jiangsu) for all other direct losses and damages suffered. No assurance, however, can be given in respect of the outcome of any claim against the Development Company, because the interpretation of the PRC laws and regulations may be influenced by government policy changes.

As a result of the lawsuits in relation to the Land as set forth herein, our land use right of the Land and the buildings erected on it may be challenged by third parties including Ruidi. We obtained the building ownership certificate of Workshop No. 5 on the buildings erected on the Land in September 2010 and subsequently returned the same to Yixing Dingshu Real Estate Management Department (宜興市丁蜀住房保障和房產管理所) on 25 November 2010. According to Yixing Dingshu Real Estate Management Department (宜興市丁蜀住房保障和房產管理所), such return is not a cancellation of the relevant building ownership certificate, and Yixing Dingshu Real Estate Management Department (宜興市丁蜀住房保障和房產管理所) will return it to the Company upon completion of the relevant land use rights registration procedures. To the best knowledge of our Directors, the relevant legal proceedings on the Land have not been settled upon the [●], and therefore the Land cannot be put into auction. There is no realistic estimation when the relevant legal proceedings will be adjudicated and when the auction will be held. If Hengxin (Jiangsu) is unable to obtain the land use right of the Land, Hengxin (Jiangsu) will not be able to obtain the building ownership certificate of the buildings erected thereon and consequently, Hengxin (Jiangsu) has to demolish such buildings.

As a remedial action, Hengxin (Jiangsu)'s board resolved on 5 August 2010 that Hengxin (Jiangsu) would use its best endeavours to obtain the land use right of the Land at the auction at market price or at a reasonable price the board thinks fit. [However, if Hengxin (Jiangsu) is not able to obtain the land use right of the Land at the auction, Hengxin (Jiangsu) would use its best endeavours to obtain a lease from the new owner of the Land at market rate or at a rate the board thinks fit and continue carrying out production at Workshop No. 5.] As a last resort, Workshop No. 5 has to be relocated. If we cannot obtain the land use right of the Land or obtain a lease from the new owner and need to relocate Workshop No. 5, the carrying value of the building of Workshop No. 5 need to be written off upon relocation. As at [30 September 2010], the carrying value of the building of Workshop No. 5 is approximately RMB7.27 million. The estimated costs incurred for the relocation of Workshop No. 5 would be approximately RMB6.56 million after taking into consideration the demolishment and relocation cost, procurement of a new land and construction of a new production plant in replace of Workshop No. 5, as well as the refundable investment on the Land of approximately RMB5.76 million and sales of scraps from the demolishment of Workshop No. 5. Our Directors confirmed that a parcel of idle land is located two kilometers away from our existing production base, which would be available for relocation of Workshop No. 5. Our existing production capacity is able to accommodate the orders on-hand. Therefore, our Directors consider that in the event that we have to relocate Workshop No. 5 there will not be any loss of production and revenue during the relocation. Besides, based on our PRC legal advisers' opinion, we are meanwhile allowed to start our operations in Workshop No. 5 once Workshop No. 5 has been inspected and approved for compliance with environmental protection until the proceedings have concluded and a decision reached by the court, despite the lack of title documents for the Land and sequestration of the Land by the court. In addition, if we cannot obtain the land use right of the Land, the R&D centre also needs to be demolished and its carrying value needs to be written off. As at [30 September 2010], the carrying value of the R&D centre is approximately RMB2.24 million.

We are subject to intellectual property rights risks.

We rely on our intellectual property rights, in particular, our "HongSun" trademark in the sales and distribution of most of our products and our patent applications in the manufacture of our products. Details of intellectual property rights vested in our Group are set out in the paragraph headed "Intellectual Property Rights" under the section headed "Business" in this document. Even though our trademarks and patents were successfully registered in the PRC and India, it may be possible for a third party to imitate or use our intellectual property rights without authorization. In this respect, our Group may incur expenses and efforts to enforce our intellectual property rights. Infringement of our intellectual property rights and the resulting diversion of resources to protect such rights will adversely affect our profitability.

On the other hand, as some of our trademarks and patents applications are awaiting approval, there is no assurance that we will be successful in the registration of such trademarks and patents. In the event that we are unable to register such trademarks and patents in the PRC and India, we may have no legal recourse to protect our proprietary rights in the event that there is any unauthorized use, infringement or misappropriation of our trademarks and patents or other traders attempting to pass off their products and services under our brand name.

As we develop our products, we may also inadvertently infringe the intellectual property rights of others or others may assert infringement claims against us or claim that we have infringed their intellectual property rights. Such claims against us, even if untrue or baseless, could result in significant legal and other costs and may have an adverse effect on our business operations.

On 6 August 2010, we applied for registration as an overseas company in Hong Kong under Part XI of the Companies Ordinance. On 25 August 2010, the Registrar of Companies served a notice under Section 337B of the Companies Ordinance for the reason that our corporate name "Hengxin Technology Ltd." was considered as "the same as" or "too like" the English name of a company already registered under the Companies Ordinance (i.e. Hengxin Technology Co., Limited). As we have used "Hengxin Technology" since our incorporation date, and our two subsidiaries are also named with "Hengxin Technology", we have adopted a name other than its corporate name for carrying on business in Hong Kong, namely HX Singapore Ltd., to distinguish from other companies with similar names, which was approved by the Companies Registry on 7 September 2010. The adoption of our trading name was confirmed by a resolution of shareholders in an extraordinary general meeting on 27 October 2010.

We show our corporate name together with our trading name and place of incorporation, i.e. Hengxin Technology Limited, incorporated in Singapore with limited liability, carrying on its business in Hong Kong as HX Singapore Ltd., and our Chinese name "亨鑫科技有限公司" is different from that of Hengxin Technology Co., Limited which called "恒信科技網絡有限公司", which can avoid any misleading or indication of the nature of our activities in Hong Kong.

As at the [●], we are not aware of any infringement or passing off action in respect of any third party intellectual property rights regarding the use of our corporate name. Although we have adopted "HX Singapore Ltd." as our trading name for carrying on business in Hong Kong, there can be no assurance that there will not be any claims, disputes or litigations made or threatened to be made against us for passing off in the future. Any claims, disputes or litigations involving infringement of third party intellectual property rights, whether with or without merits can be costly and may result in a diversion of our resources, affect adversely our reputation and/or financial performance.

We may require additional financing in the future.

We may need to obtain additional debt or equity financing to fund acquisitions or capital expenditures and investments in projects that we intend to undertake. There is no assurance that such additional funding, if needed, will be available on acceptable terms. Failure to secure adequate funds on acceptable terms will affect our business operations adversely.

Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit our operating flexibility in planning for, or reacting to, changes in our business and our industry. If additional funds are raised through the issuance of equity or equity-linked instruments, our Shareholders may experience a reduction in their percentage shareholdings and a dilution in earnings per share. In addition, such equity or equity-linked instruments may have rights, preferences or privileges senior to those of our existing Shares.

We may face disruptions in the business operations at our production facilities.

Our manufacturing activities are carried out at No.138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, the PRC. Our production activities may be disrupted due to factors beyond our control, such as the occurrence of fire, disruptions in the power supply, theft and other natural calamity resulting in significant loss or damage to our production facilities which will adversely affect our production capabilities. This would result in longer lead time for production and delayed delivery to our customers. Failure to meet our customers' expectations could damage our reputation and may, as a result, lead to loss of business and affect our ability to attract new businesses. If this is to occur, our business, profitability and financial performance will be adversely affected.

We cannot assure that our insurance coverage would be sufficient to cover all our potential losses. In the event that such loss or damage exceeds the insurance coverage or is not covered by the insurance policies we have taken up, we would have to fund such losses or damage internally which may adversely affect our results of operations and our financial condition.

Our research and development of new products may not lead to successful commercialization of these products.

We operate in a highly competitive industry. As such, in order to maintain our competitive edge, we constantly obtain feedback from our customers and conduct market research to assist in our development of new products. Our research and development projects require manpower and investments.

There is no assurance that our Group's research and development projects will be successful or that our new products will gain market acceptance. An unexpected poor response from the market of our new products will not generate the expected revenue to cover our research and development and marketing costs. Failure to successfully commercialize our new products would have an adverse impact on our business operations and financial performance.

Our research and development of antennas and high temperature resistant cables may not be successful.

The enhancement of our market competitiveness and the strengthening of our leading position in the market are dependent on our ability to successfully develop and expand our product mix. As such, we intend to invest approximately [●] of the [●] to diversify our existing product portfolio to antennas and high temperature resistant cables.

However, some or all of the abovementioned product development initiatives may not translate into products that can feasibly, or cost effectively, be produced on mass scale. Even if the antennas and high temperature resistant cables are successfully developed, we cannot assure you that these products will be commercially accepted or profitable and may also encounter competition. Our revenue and earning may be adversely affected if our investments in the development of new products do not result in proportionate financial benefits.

We may not successfully further expand our sales network into the overseas market.

In order to widen our revenue stream, to diversify our business risks and to position ourselves for strategic growth beyond the PRC in the long term, we intend to further expand our sales network to cover the overseas market. We see potential for growth of the mobile communications market in developing countries around the region and intend to focus our sales and marketing efforts in these countries. We plan to strengthen our existing sales network in Central Asia and South Asia. We also plan to identify and seek growth opportunities in other geographical markets, such as Russia, South America and Africa. Our expansion plans include conducting market research to understand the preference of the potential markets, actively participating in trade fairs and exhibitions so as to establish our presence, and paying visits to potential clients to promote our products.

In this connection, we face certain risks in our efforts to expand and maintain our business in international markets, including:

- cultural differences and other difficulties in staffing and managing international operations;
- inherent difficulties and delays in contract enforcement and collection of receivables through the use of foreign legal systems;
- volatility in currency exchange rates;
- the risk that foreign countries may impose withholding taxes (or otherwise tax our foreign income or place restrictions on repatriation of profit);
- the risk of barriers, such as anti-trust and other tariffs or other restrictions being imposed on foreign trade;
- changes in the political, regulatory, or economic conditions in a foreign country or region; and
- the burden of complying with foreign laws and regulations.

If we are unable to manage these risks effectively, our ability to expand our international business would be impaired, which may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

There is no assurance that we can successfully expand our sales network into these overseas markets, which may increase our operation costs, not generate the expected revenue and adversely affect our profitability and financial performance.

Our export sales are exposed to risks arising from increases in customs duty and taxes imposed by overseas countries and unforeseeable delay in shipments.

Our export sales may be adversely affected by increases in customs duty and taxes imposed by overseas countries such as India, which recently increased the Excise Duty from 8% to 10% and the Value Added Tax rate from 4% to 5%. Imports of our products into India is subject to various custom duties in India, including Basic customs duty, Customs Value Duty (CVD), Education Cess on CVD, Secondary & Higher Education Cess on CVD, Special Additional Customs Duty (SACD), Customs Education Cess and Customs Secondary & Higher Education Cess. Presently, the effective customs duty rate that is applicable on our Group's products is approximately 23.89%. Potential liability may also arise from unforeseeable delays in shipments such as recent vessels collision incident at Nehru port of Mumbai which led to sinking of containers and closure of the port for some days. Furthermore, an importer-exporter number is required for imports and exports to and from India. If our Group's importer-exporter number becomes invalid for any reason, the operations in India will be adversely affected.

Our non-payment of social insurance funds for employees who are in probation could lead to imposition of penalties or other liabilities.

Pursuant to PRC Labour Law and PRC Labour Contract Law, we are required to make social insurance contributions for the benefit of our employees, including pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

During the [●], our subsidiary, Hengxin (Jiangsu), has failed to pay the social insurance funds for those employees in their probation period for the reason that the probation employees are usually subject to a higher chance of personnel changes, and we have not provided the social insurance contribution until after their probation period is completed.

Our PRC legal advisers, Shanghai Veritas Law Corporation, have advised that under the relevant provisions of the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), we should make social insurance contributions for the probation employees. In respect of our non-payment of social insurance funds for the probation employees, we may be ordered to pay the outstanding social insurance payments, and may be ordered to pay a daily surcharge of 0.2% of the total social insurance payments outstanding since the date we failed to make such payments; in serious cases, the management personnel directly in charge and other responsible personnel may be liable to a fine of between RMB1,000 and RMB5,000; in extremely serious cases, the management personnel directly in charge and other responsible personnel may be liable to a fine of between RMB5,000 and RMB10,000. We are further facing the risks of being sued by such probation employees for compensation if they sustain injuries during the probation period and thus may suffer loss arising for such compensation.

Furthermore, any judgement or decision against us regarding the non-payment of social insurance funds may have adverse effect on our reputation.

Since the turnover of probation employees is relatively high, we have not maintained a record for such probation employees and therefore we cannot derive the outstanding amount of the social insurance funds to be paid by Hengxin (Jiangsu). However, taking into consideration the salary level of probation employees, our Directors are of the view that the outstanding social insurance funds for probation employees should be minimal and it will not have adverse effect on our financial position. As the amount of outstanding social insurance funds is unknown and most of probation employees have already left Hengxin (Jiangsu), it is impossible for us to settle the outstanding social insurance funds. As at the [●], Hengxin (Jiangsu) has made social insurance contributions for all the probation employees.

RISKS RELATING TO THE INDUSTRIES IN WHICH WE OPERATE

Our business is dependent on the development of telecommunications industry in the PRC and overseas.

Demand for our products depends primarily on the amount of capital spending by telecommunications operators and equipment manufacturers in the PRC and overseas. We sell our products to telecommunications operators and equipment manufacturers, who incorporate our products into equipments and hardware in areas such as base stations for wireless mobile communications and innovative indoor signal coverage systems. As the entire telecommunications industry in the PRC geared up for the phenomenal growth of 3G, the country's telecommunications operators pumped in significant capital to build their 3G infrastructure, spurring demand for related telecommunications equipments. This in turn, drove sales of our RF coaxial cables. In the near future, we are planning to further explore the telecommunications markets overseas, such as India. If the global financial crisis continues to depress consumer sentiments in these markets, such as the PRC and India, the telecommunications operators may scale back on their infrastructure spending and expansion plans in the future, hence affecting our future growth in these markets. Therefore, our future success depends upon the growth in demand for mobile communications in the PRC and overseas.

Capital spending by telecommunications operators and equipment manufacturers in the PRC, our largest market, can be influenced by a variety of factors, including the evolution of the Chinese communication network standards, the intensity of competition and the international stock exchange listings of some of the telecommunications operators and equipment manufacturers, which could result, among other things, in greater access to capital for infrastructure building or an increased focus on controlling costs in order to increase returns for investors.

Further, capital spending by telecommunications operators and equipment manufacturers in overseas can be influenced by a variety of factors, such as the local government's regulations on the telecommunications industry and policies of restrictions on imports and exports of telecommunications equipments, which could result in telecommunications operators and equipment manufacturers in such overseas markets scaling down or delaying their capital spending or reducing their imports of telecommunications equipments from certain countries.

These factors can cause our operating results to fluctuate from period to period. If telecommunications operators and equipment manufacturers delay or reduce their levels of capital spending, our operating results would be negatively affected.

We may not be able to maintain our competitive strengths in the telecommunications market.

We operate in a competitive environment and encounter competition from existing competitors in the industry and new market entrants. As such, we are in an extremely competitive industry, which is characterised by rapid technological advancement, downward pricing trends and high working capital requirements. We primarily compete on the following bases:

- Quality of RF coaxial cables;
- Extensive sale and distribution network spanning the PRC;
- Strong focus on research, design and product development;
- After-sales services; and
- Relationships with telecommunications operators.

There can be no assurance that we will maintain our competitiveness in these areas. If we fail to develop new products and services, maintain high quality of our products and services, or otherwise compete successfully, it would reduce our sales and adversely affect our future prospects.

In order to maintain our customer base and market share, we must ensure that we are able to continually develop and manufacture new products that meet our customers' requirements. In the event that our competitors are able to develop more advanced products at competitive prices, we may not be able to maintain our competitive edge or our market share, and our profits will be adversely affected.

The future development of the telecommunications industry is to a certain degree dependent on the PRC government's industry policy. Any restriction policy on the development of the telecommunications industry may result in telecommunications operators decreasing their capital expenditure in the construction of telecommunications infrastructure and thus adversely affect our operation.

During recent years, with the policy supports from the PRC government, the telecommunications industry in the PRC has experienced a rapid growth. By the issuance of 3G licenses in January 2009, telecommunications operators entered into a new phase of rapid construction and upgrade of the base stations for 3G networks. Tie in with the central government's effort to boost domestic consumption in the face of weakening global demand for Chinese exports, the State Council approved a plan to boost the country's electronics and information industries by providing additional investment and promoting the expansion of 3G mobile communications and other high-tech services in February 2009. Investment will focus on promoting the use of 3G mobile communications services and digital TVs. Our business benefits to a large extent from these industry policies.

There is no assurance that the PRC government will maintain its current policy for the telecommunications industry. If the PRC government changes its current policy and imposes any restriction policy on the development of the telecommunications industry, the capital expenditure of the telecommunications operators will be reduced and as a result, our business will be adversely affected.

The telecommunications industry has experienced significant consolidation and this trend is expected to continue. 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.

Consolidation in the telecommunications industry could result in delays in purchasing decisions by merged companies or in us playing a decreased role in the supply of products to the merged companies. Delays or reductions in wireless communications network infrastructure spending could have a material adverse effect on demand for our products. We depend on telecommunications operators and several large telecommunications equipment manufacturers for a significant portion of our business. Recent examples of the consolidation include China Telecom's acquisition of the CDMA network from China Unicom, through a series of transactions starting from 2 June 2008 and China Netcom's merger with and into China Unicom on 6 October 2008. We have had to adjust our sales tactics following 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 adversely affect our sales, operating margins, net income and share price.

We may be indirectly affected by changes in government regulations relating to the telecommunications and broadcast industries in the PRC.

Our customers are subject to laws and regulations applicable to the telecommunications and broadcast industries in the PRC. Ministry of Industry and Information Technology of the PRC, which is the primary telecommunications industry regulator under China's State Council, regulates, *inter alia*, industry policies and regulations, licensing, competition, telecommunications resources allocation, service standards, technical standards, interconnection and settlement arrangements and universal service obligations. The State Administration of Radio, Film and Television regulates the network access certification for broadcasting and television equipment (the "**Network Access Certificate**") and will set the relevant technical standards for obtaining the Network Access Certificates, transmission coverage for broadcasting stations and television stations, and supervises and regulates operators so as to ensure operators obtain valid Network Access Certificates.

Existing telecommunications and broadcast laws and regulations may be modified or new laws and regulations may be adopted. Such modified or adopted laws and regulations could, directly or indirectly, affect the pricing, distribution and quality/standards of telecommunications products and services and may have an uncertain impact on our business. Please refer to the section headed "Laws and Regulations" in this document for further details.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our manufacturing operations are entirely located in the PRC. Accordingly, our results of operations and financial position are subject to a significant degree of political, economic, and legal developments in the PRC, including the following risks:

Changes in the PRC's political, economic and social conditions, laws, regulations and policies may have an adverse effect on us.

The economy of the PRC differs from the economies of most developed countries in many respects, including:

- Structure;
- Level of government involvement;
- Level of development;
- Growth rate;
- Control of foreign exchange; and
- Allocation of resources.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. Despite the implementation of such reforms, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, results of operations or financial condition.

The PRC's legal system embodies uncertainties that could adversely affect our business and results of operations.

Our manufacturing operations are located in the PRC and all of the employees of Hengxin (Jiangsu) are PRC citizens. Our operations are therefore generally affected by and subject to the PRC legal system and PRC laws and regulations. Since 1979, many laws and regulations covering general economic matters have been promulgated in the PRC. Despite this activity to develop the legal system, the PRC's system of laws is not yet complete. Even where adequate law exists in the PRC, the enforcement of existing laws or contracts based on existing laws may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The relative inexperience of the PRC's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

The PRC's tax laws could affect tax exemptions on dividends received by us or increase our enterprise income tax rate.

We are incorporated in the Republic of Singapore under the Singapore Companies Act. Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the "**EIT Law**") and its Implementation Regulations, enacted on 16 March 2007 and 6 December 2007 respectively, effective as at 1 January 2008, if an enterprise incorporated outside the PRC has its "de facto management organization" located within the PRC, such enterprise may be recognized as a resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on their worldwide income. As a majority of the members of our management team continue to be located in the PRC after the effective date of the EIT Law, we may be deemed as a resident enterprise for enterprise income tax purposes and thus may be subject to PRC enterprise income tax at the rate of 25% on our worldwide income. As a result of the changes described above, our historical operating results may not be indicative of our operating results for future periods and the value of our Shares may be adversely affected.

Restrictions on foreign currency exchange may limit our ability to distribute dividends or to use financing effectively.

Our revenue and expenses are denominated in RMB. We may need to convert a portion of our revenue into other currencies to meet our foreign currency obligations, including, among others, payment of dividends declared, if any, in respect of our Shares. Under the PRC's existing foreign exchange regulations, dividend payments to foreign shareholders of foreign-invested enterprises (FIE) constitute current account transactions. Accordingly, our PRC subsidiary, which is an FIE, is able to pay dividends in foreign currencies, without prior approval from the SAFE, by complying with certain procedural requirements. However, we cannot assure that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions.

Foreign exchange transactions by our subsidiary in the PRC under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. In particular, if our PRC subsidiary borrows foreign currency loans from us or other foreign lenders, these loans must be registered with the SAFE. If we finance them by means of additional capital contributions using, for instance, [●] from the [●], these capital contributions must be approved or registered by certain governmental authorities including the SAFE, MOFCOM or their local counterparts. These limitations could affect the ability of these entities to obtain foreign exchange through debt or equity financing, and therefore could affect our business and 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.

The exchange rates between the RMB and the Hong Kong dollars, the U.S. dollar and other foreign currencies is affected by, among other things, changes in the PRC's political and economic conditions. In 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is pegged against a basket of currencies, determined by the People's Bank of China, against which it can appreciate or weaken by as much as 0.5% each day.

There remains significant international pressure on the PRC government to adopt a more flexible policy, which could result in a further appreciation of the RMB against the U.S. dollar, the Hong Kong dollar or other foreign currencies. As we rely on dividends paid to us by our operating subsidiaries, any significant revaluation of the RMB may have a material effect on the value of dividends payable in foreign currency terms. Furthermore, we need to convert the [●] from [●] and future financing into the RMB for our operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the RMB amount we receive from the conversion.

Following the completion of [●], we expect a significant portion of our cash and cash equivalents to be denominated in foreign currencies. As our functional currency is RMB, such foreign currency-denominated cash and cash equivalents are exposed to fluctuations in the value of the RMB against the currencies in which these cash and cash equivalents are denominated. Any significant appreciation of the RMB against these foreign currencies may result in significant exchange losses.

Moreover, as we expect that our future growth will be partially from exports, any appreciation of RMB could give rise to uncertainties in our financial condition and results of operations.

Inflation in the PRC could materially and adversely affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in our costs, our business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. A slowdown in the PRC economy could also materially and adversely affect our business and prospects.

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

Our Company is incorporated in Singapore. Half of our Board of Directors are residents of the PRC. Our Company is a holding company, a substantial proportion of the assets of our operating subsidiary and its directors are located within the PRC. Therefore, it may not be possible for investors to effectuate service of process upon us or those persons inside the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts.

The PRC 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. Accordingly, it may be difficult to secure recognition and enforcement in the PRC for court judgments obtained in other jurisdictions and to access our assets in the PRC in order to enforce judgment awards entered against us outside of the PRC. Therefore, it may be difficult for you to enforce against us, or our directors in the PRC, any judgments obtained from non-PRC courts.

Our financial results may be adversely affected by the PRC Labour Contract Law and competition within the PRC for skilled and experienced workers.

As at [30 September] 2010, we employed [668] employees in the PRC. On 29 June 2007, the PRC Government promulgated a labour law, namely, the PRC Labour Contract Law, which became effective on 1 January 2008. The PRC Labour Contract Law imposes requirements relating to, among others, the types of contracts to be executed between an employer and an employee, and establishes time limits for probation periods and provides for how long and how many times an employee can be placed on a fixed-term employment contract. It also requires that social insurance be paid on behalf of employees, otherwise employees are entitled to unilaterally terminate the labour contract. Under the PRC Labour Contract Law, when we terminate our PRC employees' employment, we are required to compensate them for an amount which is determined based on their length of service with us. In the event we decide to significantly change or decrease our workforce, the Labour Contract Law could adversely affect our ability to effect these changes cost-effectively or in the manner we desire, which could negatively impact our results of operations.

We face risks related to health epidemics and other outbreaks as well as natural disasters.

Our business could be materially and adversely affected by the effects of Severe Acute Respiratory Syndrome (or SARS), avian influenza, Influenza A (H1N1, or widely known as swine influenza) or another epidemic or outbreak on the economic and business climate and the natural disasters. China reported a number of cases of SARS in April 2004, avian influenza has been reported in western China and several countries in Southeast Asia in 2005 and swine influenza has resulted in numerous human deaths in several provinces in the PRC in 2005. The recent outbreak of Influenza A has caused deaths worldwide. Restrictions on travel resulting from a reoccurrence of SARS or another epidemic or outbreak could adversely affect our ability to market and service new and existing customers throughout China.

Our business operations could be disrupted if one of our employees is suspected of having SARS, avian influenza or swine influenza, since it could require us to quarantine some or all of our employees and/or disinfect our offices. In addition, our results of operations could be adversely affected in the event that SARS, avian influenza, swine influenza or another outbreak harms the Chinese economy in general.

Furthermore, our business is also subject to natural disasters such as fire, floods and earthquakes, as well as civil strife, industrial strikes, terrorist incidents or other acts of God which are beyond our control and which would have a material adverse effect on our business, financial condition and results of operations. In addition, the production facilities of many of our suppliers and customers are located in the PRC. If our customers are affected by such disruptions, it could result in a decline or delay in the demand for our products. Similarly, if our suppliers are affected, our production schedule could be interrupted or delayed. As a result, a major disruptive event in the PRC, even one that does not directly affect us, could severely disrupt the normal operation of our business and have a material adverse effect on our business, financial condition and results of operations.

We cannot guarantee the accuracy of certain facts and statistics with respect to the PRC, the PRC economy and the telecommunications industry contained in this document.

Certain facts and statistics contained in this document relating to the PRC, the PRC economy and the PRC telecommunications industry have been derived from, among other sources, official PRC government publications which are generally believed to be reliable. However, we cannot guarantee the quality or reliability of such official government publications. They have not been prepared by us, the [●], the [●] or the Underwriters or any of our or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of the facts and statistics, or materials prepared based on the facts and statistics, contained in the official government publications, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other difficulties, the facts and statistics contained in the official PRC government publications may be inaccurate or may not be comparable to the facts and statistics produced for other economies and should not be relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight of importance they should attach to or place on such facts or statistics derived from official government sources.