



中国优通控股  
China UT Holding

# China U-Ton Holdings Limited 中國優通控股有限公司

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

Stock Code: 8232

PLACING

Sole Sponsor



國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

**Guotai Junan Capital Limited**

Sole Bookrunner and Lead Manager



國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

**Guotai Junan Securities (Hong Kong) Limited**

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## IMPORTANT

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



中国优通控股  
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### China U-Ton Holdings Limited

中國優通控股有限公司

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

#### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

**Number of Placing Shares : 420,000,000 Shares (subject to the Over-allotment Option)**  
**Placing Price : HK\$0.34 per Placing Share (payable in full on application, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)**  
**Nominal value : HK\$0.10 per Share**  
**Stock code : 8232**

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Hong Kong Exchanges and Clearing Limited, the Stock Exchange and HKSCC 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, together with the documents specified under the section headed "Documents delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The SFC and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

Prior to making any investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors of the Placing should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to our Company given by the Lead Manager (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set out in the section headed "Underwriting — Grounds for termination" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Lead Manager (for itself and on behalf of the Underwriters) terminate its obligations under the Underwriting Agreement in accordance with the terms of the Underwriting Agreement, the Placing will not proceed and will lapse.

6 June 2012

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## CHARACTERISTICS OF GEM

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**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## EXPECTED TIMETABLE

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2012<sup>(Note 1)</sup>

Announcement of the level of indication of interest in the Placing to be published	
(a) on the website of our Company (www.chinauton.com); and	
(b) on the GEM website (www.hkexnews.hk) on or before	Monday, 11 June
Allotment of the Placing Shares on or before	Monday, 11 June
Deposit of share certificates for the Placing Shares into CCASS on or before <sup>(Note 2)</sup>	Monday, 11 June
Dealings in the Shares on GEM to commence at 9:00 a.m. on <sup>(Note 3)</sup>	Tuesday, 12 June

*Notes:*

1. Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.
2. The share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on or before Monday, 11 June 2012 for credit to the relevant CCASS participants' or the CCASS investor participants' stock accounts designated by the Lead Manager (for itself and on behalf of the Underwriters), the placees or their respective agents (as the case may be). No temporary documents or evidence of title will be issued. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms prior to 8:00 a.m. (Hong Kong time) on the Listing Date.
3. If there is any change of the above expected timetable, a separate announcement will be made by our Company.

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus pursuant to the Placing. This prospectus may not be used for the purpose of and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.*

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

*Our Company, the Sponsor, the Bookrunner, the Lead Manager and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Bookrunner, the Lead Manager, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Placing.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As the following is only a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before making any decision to invest in the Placing Shares.*

*Various expressions used in this summary are defined in the sections headed "Definitions" and "Glossary of technical terms" in this prospectus.*

### OVERVIEW

#### Our principal business

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

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

If in-sewer deployment method is used, we have to enter into an agreement with the relevant local PRC governmental authorities to secure our rights in using the relevant public sewer systems for the deployment of optical fibers. As at the Latest Practicable Date, we have obtained the exclusive rights in using public sewer systems for the purposes of deployment of optical fibers at 11 distinct locations in ten different districts or cities in the PRC, namely, Beijing, Jinan, Baoding, Handan,

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## SUMMARY

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Xingtai, Qinhuangdao, Chengde, Zhangjiakou, Shahe and Meishan and the non-exclusive right in Hengshui. As at the Latest Practicable Date, we have entered into deployment contracts with our major clients using in-sewer deployment method in public sewer systems in Handan, Xingtai and Hengshui of Hebei Province.

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

Subject to the Price Scale set by the Ministry of Industry and Information Technology in accordance with the Budgeting Measures (for more details, please see the section headed “Business - Our pricing policies in respect of the deployment services of optical fibers” in this prospectus), we principally prepare our quotation based on, including but not limited to, the project’s geographic area and the estimated costs such as labour costs and material costs, with adjustment on a project-by-project basis. Cities located north of the Yangtze River and cities located south of the Yangtze River have different price scales.

Although the Budgeting Measures had no material adverse impact on our revenue and profitability during the Track Record Period and the Price Scale has not been revised since its implementation in July 2008 and up to the Latest Practicable Date, if there is any adverse change in any of the Price Scale (such as the reduction on the Price Scale) or the Budgeting Measures, we shall take measures on our cost control, such as sourcing subcontractors with lower subcontracting prices or requiring our engineering team to carry out the non-technical works if that would incur less costs than being carried out by our subcontractors. If we cannot take effective measures to tackle such change, the bidding prices of our projects and hence our business and financial performance may be adversely affected. Further details of the aforesaid risk are set out in the section headed “Risk factors — Risks related to the industry in which we operate” in this prospectus.

### **Our major clients**

Our clients for deployment of optical fibers are mainly telecommunication operators in the PRC which we have established eleven years with the Major Telecommunication Operator and other major telecommunication operators from three to six years of business relationships. Our Directors consider that our ability and experience to provide deployment services of optical fibers by diversified methods to meet the demands of our clients in different geographical locations would enable us to maintain business relationship with the Major Telecommunication Operator. The Major Telecommunication Operator, our largest client, accounted for approximately 75.5% and 66.0% of our total revenue for the two years ended 31 December 2010 and 2011 respectively. During the Track Record Period, the top five largest clients of our Group in aggregate accounted for approximately 96.0% and 79.7% of our total revenue respectively. Therefore, any decrease or delay in demand for our services from our major clients, in particular, the Major Telecommunication Operator, could have an adverse effect on our operations and profits.

In view of the significance of the Major Telecommunication Operator to our business and in order to reduce our reliance on the same, we have been trying to explore business opportunities including but not limited to the deployment services of optical fibers with other telecommunication operators in the PRC. Although the reliance on the Major Telecommunication Operator was not significantly reduced solely by means of the business relationships with other telecommunication operators in the PRC during the Track Record Period, we also intended to reduce such reliance through the acquisition of Shijiazhuang Qiushi in March 2011 which allowed us to diversify our client base by providing our low-voltage equipment integration services to clients such as financial institutions, governmental departments, road and transportation companies, state-owned and private companies and in order to broaden our revenue stream. The revenue generated by the low-voltage equipment integration services was approximately RMB40.5 million from 1 March 2011 (the date of acquisition



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## SUMMARY

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of Shijiazhuang Qiushi) to 31 December 2011, representing approximately 25.1% of our total revenue for the year ended 31 December 2011. Based on the industry review report prepared by CCID Consulting, we expect the market of low-voltage equipment integration in China will continue to grow in 2012.

### **Our trade and bill receivables**

Our major clients, in practice, do not follow strictly the definite terms such as the payment terms as stipulated in the construction contracts and the project workflow of our deployment projects of optical fibers such as signing of the formal construction contracts at a reasonable time. However, we do not intend to significantly change our practice nor enforce such contractual terms by taking legal action against those clients who do not strictly adhere to such terms of the relevant construction contracts or project workflow in order to maintain our business relationships.

We recognise our trade receivables when we have (i) billed our clients upon the receipt of final inspection certificates and/or upon the completion of the projects; or (ii) not billed our clients but the final inspection certificates have been received from our clients in respect of optical fibers deployment projects and low-voltage equipment integration projects; or (iii) not billed our clients but the services have been provided or the goods have been delivered with titles thereof have been passed to our clients. Our trade and bill receivable turnover days were 143 days and 196 days for the two years ended 31 December 2010 and 2011, respectively. Despite our major clients do not follow strictly the payment terms as stipulated in the construction contracts, normally the collection period of the majority of our trade receivables ranged from 30 to 180 days from the invoice date during the Track Record Period.

Our trade and bill receivable turnover days was 196 days for the year ended 31 December 2011, which was longer than that in 2010 as out of the trade receivables of RMB62.3 million as at 31 December 2011, (i) RMB22.8 million or approximately 36.6% of the trade receivables related to projects whose invoices had been billed to clients; and (ii) RMB39.5 million or approximately 63.4% of the trade receivables related to projects which we received final inspection certificates or provided services or delivered goods with title passed to our clients but our invoices were not yet issued as at 31 December 2011 which led to higher trade and bill receivable turnover days. The reason why we had not issued invoices for the projects which we received final inspection certificates or provided services or delivered goods to our clients as at 31 December 2011 was because these deployment projects of optical fibers were completed or services provided or goods delivered mainly in November and December 2011 and the invoices for the same had not been issued to our clients as certain internal procedures had to be carried out by our clients before we issued invoices to them. Hence, the trade and bill receivable turnover days was longer for the year ended 31 December 2011. Our trade and bill receivable turnover days of 143 and 196 for the years ended 31 December 2010 and 2011, respectively had no material adverse impact on our liquidity as we usually settle substantial part of those corresponding subcontracting costs on installment basis in respect of the construction contracts and we communicated with our subcontractors to better align our payment practices with the settlement practice of our major clients.

### **Provision of doubtful debts**

We perform reviews of receivables on a case-by-case basis. Our allowance for doubtful debts mainly reflects provisions for receivables related to clients whose debts have been long outstanding without subsequent settlement received and our management assessed that these receivables are not expected to be recovered. As at 31 December 2011, we had provided allowance for doubtful debts of approximately RMB0.2 million. Approximately RMB16,000 of allowance for doubtful debts was

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## SUMMARY

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related to the Major Telecommunication Operator while the remaining amount was related to four non-major clients. Save as disclosed above, our Directors confirm that our Group has not experienced any material recoverability problem of trade receivables with our major clients during the Track Record Period.

### **Our project workflow**

We obtain our projects of deployment of optical fibers mainly by way of tender or direct negotiation. Our revenue in respect of the deployment services of optical fibers is generated on a project basis and is recognised using the stage-of-completion method, pursuant to which revenue is recognised ratably over the life of the contract. After we have entered into the construction contract with our client setting out the final contract price, the scope of work and the payment arrangements, we will commence our deployment works within the timeframe as stipulated in the construction contract and start incurring labour costs and other costs for the works. However, in practice, our major clients usually make payments to us within one to six months upon receiving invoices issued by us. Further, a portion of contract value, normally 5% to 10%, is usually withheld by our clients as retention money and will be released after the warranty period, which is typically one year.

### **Market overview on the deployment of optical fibers with micro-ducts and mini-cables**

According to CCID Consulting, the three major telecommunication operators in China are still testing the applications of micro-ducts and mini-cables and are currently carrying out pilot projects of micro-ducts and mini-cables in a number of provinces and cities such as Beijing, Anhui Province, Shaanxi Province, Liaoning Province and Jilin Province. Among the three major telecommunication operators, China Mobile Communications Corporation (中國移動通信集團) is more willing to try the application of micro-ducts and mini-cables system integration methods. Major manufacturers of optical fibers have introduced micro-ducts and mini-cables related products and are promoting the application of micro-ducts and mini-cables. However, as the telecommunication operators in the PRC are still treating the market of micro-ducts and mini-cables as a pilot phase, the development of the market regarding the deployment of micro-ducts and mini-cables in China is at an early stage. For more details, please see the section headed “Industry overview — Deployment services of optical fibers — Market overview on the deployment of optical fibers” in this prospectus.

### **Acquisition of Shijiazhuang Qiushi**

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

Our low-voltage equipment integration projects are mainly obtained by way of tender or direct negotiation. After signing the contract with our client, we have to purchase all required equipment, materials, parts and components. We maintain our own engineering team to carry out the technical works such as wiring and testing. However, we may either recruit temporary workers or engage subcontractors, which are Independent Third Parties and do not have any past relationships with our Group, Directors, shareholders or any of their respective associates, to carry out non-technical works

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## SUMMARY

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such as excavating wall trough and installing in-wall wires. On average, the installation period of our low-voltage equipment integration projects was approximately one to two month(s) during the Track Record Period. The installation period is basically subject to the size and complexity of each project. We will issue our invoice for client's settlement after the project is completed.

### **The performance of our Group subsequent to 31 December 2011**

For each of the two years ended 31 December 2010 and 2011, our revenue amounted to approximately RMB51.5 million and RMB161.7 million, respectively, representing a year-on-year growth rate of approximately 213.8%. Based on the current market situation and the business relationships with our clients, despite our revenue decreased by 26.0% for the four months ended 30 April 2012 as compared to the corresponding period in 2011, our Directors will strive to maintain the revenue of our Group for the year ending 31 December 2012 at a similar level as compared to the same period in 2011, as the amount of backlog to be recognised subsequent to 30 April 2012, based on our projects in progress and projects to be commenced as at the latest practicable date, being 18 May 2012, together with the revenue recognised for the four months ended 30 April 2012, had accounted for approximately 81.5% to the total revenue in 2011. However, certain factors including but not limited to (i) the progress of our projects which may have an impact on our revenue based on the percentage of completion; (ii) any changes in our labour costs and material costs after tendering as a result of changes in governmental policies or economic conditions may increase our costs of services; (iii) our market expansion, by building experimental sections in different locations in order to explore more potential markets, according to our implementation plan which may increase our marketing and distribution expenses; and (iv) any unfavourable change to the preferential income tax treatments currently enjoyed by us which may increase our income tax payable materially, all of such will have an adverse impact on the profitability and financial position of our Group in the future.

During the four months ended 30 April 2012, our revenue decreased by 26.0% as compared to the corresponding period in 2011, which was mainly due to the decrease in revenue derived from our construction contracts revenue and low-voltage equipment integration services.

### ***Construction contract revenue***

During the four months ended 30 April 2012, our Group had completed 43 projects as compared to 19 projects for the corresponding period in 2011. Based on our unaudited consolidated management accounts for the four months ended 30 April 2012, the revenue recognised for completed projects was approximately RMB8.9 million as compared to approximately RMB7.3 million for the corresponding period in 2011. In addition, our Group had 60 projects in progress during the four months ended 30 April 2012 as compared to 58 projects in progress for the corresponding period in 2011. Based on our unaudited consolidated management accounts for the four months ended 30 April 2012, the revenue recognised for the projects in progress was approximately RMB29.3 million as compared to approximately RMB41.9 million for the corresponding period in 2011. The decrease in revenue, despite the increase in number of completed projects and projects in progress, during the four months ended 30 April 2012 as compared to the corresponding period in 2011 was mainly due to the average project size was smaller and thus resulted in a lower average revenue per project. The revenue derived from construction contracts increased from approximately 83.1% of our total revenue for the four months ended 30 April 2011 to approximately 87.2% of our total revenue for the four months ended 30 April 2012.

### ***Services income***

There was no material change in the revenue from services income, generated from our provision of the maintenance services in respect of optical fiber networks to the telecommunication operators

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## SUMMARY

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in the PRC irrespective of whether or not the deployment works thereof are carried out by us, during the four months ended 30 April 2012 as compared to the corresponding period in 2011. The revenue derived from services income increased from approximately 2.7% of our total revenue for the four months ended 30 April 2011 to 3.7% of our total revenue for the four months ended 30 April 2012.

### *Sales of goods*

The revenue from sales of goods decreased by 62.7% during the four months ended 30 April 2012 as compared to the corresponding period in 2011, which was mainly due to the reduction in the quantity of anti-corrosive steel wires sold to the clients. The revenue derived from sales of goods decreased from 1.1% of our total revenue for the four months ended 30 April 2011 to 0.5% of our total revenue for the four months ended 30 April 2012.

### *Rental income*

The revenue from rental income increased by 69.2% for the four months ended 30 April 2012 as compared to the corresponding period in 2011. The revenue derived from rental income remained stable which was approximately 0.1% of our total revenue for the four months ended 30 April 2011 and 2012.

### *Low-voltage equipment integration services*

During the four months ended 30 April 2012, our Group had completed 40 projects as compared to 31 projects for the corresponding period in 2011. Based on our unaudited consolidated management accounts for the four months ended 30 April 2012, the revenue recognised for the completed projects was approximately RMB3.7 million as compared to approximately RMB7.7 million for the corresponding period in 2011. In addition, our Group had no project in progress as at 30 April 2011 and 2012. The decrease in revenue in 2012 was mainly due to the average project size was smaller and thus resulted in a lower revenue per project. The revenue derived from low-voltage equipment integration services decreased from 13.0% of our total revenue for the four months ended 30 April 2011 to 8.5% of our total revenue for the four months ended 30 April 2012.

For the number of projects secured by our Group but yet to be commenced as at latest practicable date, being 18 May 2012, please refer to the sections headed “Business — Deployment services of optical fibers — Projects to be commenced” and “Business — Low-voltage equipment integration services — Projects in progress and projects to be commenced” in this prospectus.

### *Gross profit and net profit margins*

Our gross profit margin increased by 15.0% for the four months ended 30 April 2012 as compared to the corresponding period in 2011. The increase in gross profit margin was primarily attributable to the fact that we commenced construction of four projects in early 2012 in Chengde, Zhangjiakou, Hengshui and Handan using micro-ducts and mini-cables system integration methods with aggregate contract amount of RMB26.1 million. We had recognised RMB13.8 million during the four months ended 30 April 2012 based on the stage of completion. These four projects had a relatively higher gross profit margin which resulted in relatively higher gross profit margin during the four months ended 30 April 2012 as compared to the corresponding period in 2011.

There was no material change in our net profit margin during the four months ended 30 April 2012 as compared to the corresponding period in 2011. The stability in net profit margin was primarily attributable to a higher gross profit margin from several projects using micro-ducts and mini-cables system integration methods which was partially offset by the decrease in contract revenue recognised and the increase in the listing expenses.

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## SUMMARY

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### *Other expenses*

Apart from the listing expenses of approximately RMB9.1 million recognised in the consolidated statements of comprehensive income during the year ended 31 December 2011, we expect to incur further expenses in relation to the Placing amounting to approximately RMB7.6 million for the year ending 31 December 2012, of which approximately RMB5.2 million has been recognised in the consolidated statements of comprehensive income for the four months ended 30 April 2012. Our Directors would like to emphasise that the above amount is merely an estimate for reference only, and the final amount to be recognised in the consolidated statements of comprehensive income of our Group for the year ending 31 December 2012 is subject to revisions and finalisations. Save for the abovementioned, our Directors are not aware of any significant non-recurring expenses that would result in any material adverse change in the consolidated statements of comprehensive income of our Group subsequent to 31 December 2011 and up to the Latest Practicable Date.

### **Financial position**

As at 30 April 2012, we had bank balances and cash of approximately RMB35.9 million, representing a decrease of RMB7.9 million from RMB43.8 million as at 31 December 2011, which was used to finance our operations during the four months ended 30 April 2012. As at 30 April 2012, we had net current assets of approximately RMB89.9 million, representing an increase of RMB14.3 million from RMB75.6 million as at 31 December 2011.

As at 30 April 2012, our secured bank borrowings amounted to approximately RMB7.8 million, of which approximately RMB2.8 million was new secured bank borrowings made during the four months ended 30 April 2012 and was mainly used to finance our operations. In addition, during the four months ended 30 April 2012, we obtained new other borrowings from Independent Third Parties of approximately RMB19.6 million was used to (i) repay the amounts due to related parties; and (ii) settle part of the listing expenses incurred during the four months ended 30 April 2012. We plan to use approximately HK\$14.3 million from the net proceeds of the Placing to repay part of the other borrowings.

### **OUR REVENUE MODEL**

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

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

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## SUMMARY

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*Notes:*

1. The revenue represented the revenue generated from the deployment services of optical fibers which involve the application of micro-ducts and mini-cables system integration methods.
2. Services income represented the revenue generated from our provision of maintenance services in respect of optical fiber networks.
3. Sales of goods represented the revenue generated from our sales of ancillary products, including micro-ducts and anti-corrosive steel wires.
4. Rental income represented the revenue generated from a sublease for deployment of telecommunication networks.
5. The revenue represented the revenue of Shijiazhuang Qiushi from 1 March 2011 (date of acquisition) to 31 December 2011.

### Projects in progress and projects to be commenced

The following table set out the backlog amount and contractual amount for projects in progress and projects to be commenced during the relevant period:

*Deployment services of optical fibers*

	<b>Backlog amount for projects as at 31 December 2010 (RMB'000) (Note 1)</b>	<b>Backlog amount for projects as at 31 December 2011 (RMB'000) (Note 1)</b>	<b>Total contractual amount for projects as at 18 May 2012 (RMB'000)</b>
Projects in progress (Note 2)	65,224	26,748	84,363
Projects to be commenced (Note 3)	N/A	N/A	54,391

*Low-voltage equipment integration services*

	<b>Backlog amount for projects as at 31 December 2011 (RMB'000) (Note 1)</b>	<b>Total contractual amount for projects as at 18 May 2012 (RMB'000)</b>
Projects in progress (Note 2)	1,014	4
Projects to be commenced (Note 3)	N/A	2,034

*Notes:*

1. Backlog amount for the projects referred to the difference between the total contractual amount of projects and their recognised revenue for the relevant periods.
2. Projects in progress referred to projects for which we have recognised part but not all of the revenue for accounting purposes as at the end of the relevant period. The portion of contract value for projects in progress which has not been realised is deemed as part of our backlog.
3. Projects to be commenced referred to projects which have been secured by us but have not commenced works and no revenue has been recognised as at the end of the relevant period.

## SUMMARY

### SUMMARY FINANCIAL INFORMATION

The following table summarises our selected consolidated statements of comprehensive income and other financial information for the periods indicated. This summary of financial information is extracted from the Accountants' Report set out in Appendix I to this prospectus. You should read the Accountants' Report set out in Appendix I to this prospectus for further details.

#### Consolidated Statements of Comprehensive Income

	Year ended 31 December			
	2010	%	2011	%
	RMB'000		RMB'000	
Revenue . . . . .	51,547	100.0	161,734	100.0
Cost of sales/services . . . . .	<u>(28,215)</u>	<u>(54.7)</u>	<u>(86,692)</u>	<u>53.6</u>
Gross profit . . . . .	23,332	45.3	75,042	46.4
Other income . . . . .	39	0.1	134	0.1
Other gains and losses . . . . .	(13,747)	(26.7)	10,879	6.7
Marketing and distribution expenses . . . . .	(1,067)	(2.1)	(3,245)	(2.0)
Administrative expenses . . . . .	(5,237)	(10.2)	(10,771)	(6.7)
Listing expenses . . . . .	—	—	(9,068)	(5.6)
Finance costs . . . . .	<u>(201)</u>	<u>(0.4)</u>	<u>(1,942)</u>	<u>(1.2)</u>
Profit before taxation . . . . .	3,119	6.0	61,029	37.7
Income tax expense . . . . .	<u>(1,542)</u>	<u>(3.0)</u>	<u>(4,191)</u>	<u>(2.6)</u>
Profit and total comprehensive income for the year . . . . .	<u>1,557</u>	<u>3.0</u>	<u>56,838</u>	<u>35.1</u>
(Loss) profit and total comprehensive (expense) income for the year attributable to:				
Equity holders of the Company . . . . .	(1,272)	(2.5)	55,381	34.2
Non-controlling interests . . . . .	<u>2,849</u>	<u>5.5</u>	<u>1,457</u>	<u>0.9</u>
	<u>1,577</u>	<u>3.0</u>	<u>56,838</u>	<u>35.1</u>
(Loss) earnings per share				
Basic (cents) . . . . .	<u>(0.1)</u>		<u>4.5</u>	

Our revenue increased by approximately 213.8% from approximately RMB51.5 million for the year ended 31 December 2010 to approximately RMB161.7 million for the year ended 31 December 2011. The increase was mainly attributable to (i) new revenue stream of approximately RMB40.5 million generated from our provision of low-voltage equipment integration services upon acquisition of Shijiazhuang Qiushi on 1 March 2011; and (ii) the increase in revenue derived from construction contracts for deployment of optical fibers by RMB66.8 million from approximately RMB45.8 million for the year ended 31 December 2010 to approximately RMB112.6 million for the year ended 31 December 2011 in relation to projects in Shijiazhuang, Tangshan, Cangzhou, Hengshui, Zhangjiakou, Chengde, Handan and Baoding as a result of geographical expansion of our business.

The increase in our gross profit margin from approximately 45.3% for the year ended 31 December 2010 to approximately 46.4% for the year ended 31 December 2011 was primarily due to the increase in gross profit margin of construction contract revenue in relation to deployment of optical fibers from approximately 44.5% in 2010 to approximately 50.4% in 2011 and the gross profit

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## SUMMARY

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of which accounted for approximately 87.1% and 75.6% of total gross profit in 2010 and 2011, respectively. This was partially offset by the acquisition of Shijiazhuang Qiushi on 1 March 2011 whose main business is low-voltage equipment integration services which is of a lower gross profit margin as compared to the deployment services of optical fibers and its gross profit accounted for approximately 18.9% of total gross profit in 2011. The increase in gross profit margin of construction contract revenue in relation to deployment of optical fibers in 2011 as compared to that in 2010 was mainly due to the increase in gross profit margin of both the traditional deployment methods and micro-ducts and mini-cables system integration methods as a result of obtaining more projects with higher gross profit margin.

The increase in profit before taxation from approximately RMB3.1 million for the year ended 31 December 2010 to approximately RMB61.0 million for the year ended 31 December 2011 was primarily due to (i) our significant increase in revenue as a result of business expansion and acquisition of Shijiazhuang Qiushi as mentioned above; (ii) the non-recurring other gains of approximately RMB7.6 million, which consisted of fair value adjustment on initial recognition of other borrowings of approximately RMB1.3 million and gain on discharge of obligations under convertible loans of RMB6.3 million, during the year ended 31 December 2011; and (iii) we recorded non-recurring other gains of approximately RMB3.2 million in 2011 mainly as a result of recovery of other receivables of RMB2.7 million which were fully written off in Hebei Deer before the First Acquisition and recovered subsequently in December 2011.

As a result of the above, our net profit margin increased from approximately 3.0% for the year ended 31 December 2010 to approximately 35.1% for the year ended 31 December 2011. Should the non-recurring other gains of approximately RMB10.9 million in 2011 be excluded, our net profit margin for the year ended 31 December 2011 would have been approximately 28.4%. While we recorded other losses of approximately RMB13.7 million during the year ended 31 December 2010 primarily as a result of the non-recurring restructuring costs of approximately RMB13.7 million in 2010. The non-recurring restructuring costs of approximately RMB13.7 million was incurred as a result of the deemed acquisition of Partnerfield and Hebei Deer (collectively the “**Former Partnerfield Group**”) by Beijing U-Ton on 28 December 2010. The non-recurring restructuring costs principally represent the difference between the consideration paid by Mr. Jiang in acquiring the Former Partnerfield Group and the fair value of the assets and liabilities of the Former Partnerfield Group as at the date of acquisition. Should the non-recurring restructuring costs of approximately RMB13.7 million be excluded, the net profit margin for the year ended 31 December 2010 would have been approximately 29.7%.

The decrease in the net profit margin from approximately 29.7% for the year ended 31 December 2010 to approximately 28.4% for the year ended 31 December 2011 was mainly due to the recognition of listing expenses of approximately RMB9.1 million during the year ended 31 December 2011.

### LIQUIDITY AND CAPITAL RESOURCES

We had met our liquidity requirements principally through a combination of cash flow from operations, internal resources and borrowings from banks and related parties during the Track Record Period. Our principal uses of cash have been, and are expected to continue to be operational costs and investing activities.

#### Management of working capital

In light of the lengthy trade and bill receivable turnover days during the Track Record Period, we manage our working capital requirement by adopting the following measures in order to maintain sufficient cash flow to support our operations going forward:



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## SUMMARY

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- maintaining banking facilities. As at 31 December 2010 and 2011 and the Latest Practicable Date, we had banking facilities of RMB10.0 million, RMB20.0 million and RMB20.0 million, respectively;
- settling our subcontracting costs on installment basis in respect of the construction contracts; and
- managing our inventory controls through the management of our procurement.

We had net cash generated from operating activities of approximately RMB19.3 million and RMB8.1 million for the two years ended 31 December 2010 and 2011 respectively. For details of the operating cash flow, please refer to the section headed “Financial information — Liquidity and capital resources” in this prospectus. Nevertheless, our Directors confirm that we did not experience any liquidity problems during the Track Record Period and have never experienced any difficulty in meeting our obligations to repay interest-bearing borrowings when they became due. As at 31 December 2011, we had total cash and bank balances of approximately RMB43.8 million and total bank facilities of RMB20.0 million, of which approximately RMB5.0 million were utilised and approximately RMB15.0 million were not utilised, which are required to finance our working capital and part of our capital expenditure plans in light of our continuing business growth.

As at the Latest Practicable Date, our Directors were not aware of any cancellation or slowing down of the material projects, default payment by the clients or any difficulties in obtaining banking facilities. We believe that the net proceeds to be received by us from the Placing, together with our current cash and bank balances and net cash generated from our operating activities will be sufficient to meet our capital commitments and anticipated cash needs for working capital, capital expenditures, business expansion, investments and debt repayment for at least the next 12 months commencing from the date of this prospectus.

### STATISTICS OF THE PLACING

	<b>Based on the Placing Price of HK\$0.34</b>
Market capitalisation of the Shares ( <i>Note 1</i> )	HK\$571.2 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ( <i>Note 2</i> )	HK\$0.13

*Notes:*

1. The calculation of the market capitalisation of the Shares is based on 1,680,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Placing, assuming no exercise of the Over-allotment Option and taking no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme.
2. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after making the adjustments referred to in the section headed “Unaudited pro forma statement of adjusted consolidated net tangible assets” in Appendix II to this prospectus and on the basis of 1,680,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Placing, assuming no exercise of the Over-allotment Option and taking no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme.

## SUMMARY

### DIVIDENDS

For the two years ended 31 December 2010 and 2011, we did not declare any dividends. After Listing, the distribution of dividends shall be formulated by the Board and is subject to Shareholders' approval in general meeting. At present, our Directors intend, subject to certain limitations and in the absence of any circumstances which might reduce the amount available for distribution whether by losses or otherwise, to distribute to the Shareholders not more than 25% of our profits available for distribution for financial years subsequent to the Listing. The amount of dividends distributable to Shareholders will also depend upon our earnings and financial condition, operating requirements, capital requirements and other conditions that our Directors may deem relevant at such time.

### USE OF PROCEEDS

At the Placing Price of HK\$0.34 and assuming the Over-allotment Option is not exercised, the net proceeds from the Placing, after deducting related expenses, are estimated to amount to approximately HK\$111.4 million. We intend to apply such net proceeds from the Placing as follows:

	From the Latest Practicable Date to 30 June 2012 HK\$ (million)	For the six months ending 31 December 2012 HK\$ (million)	For the six months ending 30 June 2013 HK\$ (million)	For the six months ending 31 December 2013 HK\$ (million)	For the six months ending 30 June 2014 HK\$ (million)	For the six months ending 31 December 2014 HK\$ (million)	Total HK\$ (million)
1. Further strengthening our deployment services of optical fibers in the PRC							
- Investment in equipment	—	9.52	6.90	4.88	4.88	—	26.18
- Market expansion	—	5.31	7.75	1.22	1.22	—	15.50
- Securing strategic assets/rights	—	6.10	13.66	3.66	—	—	23.42
- Acquisition	—	12.20	—	—	—	—	12.20
- Human resources	—	1.00	1.00	0.60	—	—	2.60
- Research and development	—	1.30	0.60	0.60	0.60	0.60	3.70
Sub-total	—	35.43	29.91	10.96	6.70	0.60	83.60
2. Expanding our business of low-voltage equipment integration services in the PRC							
- Sales and marketing	—	1.20	0.60	0.60	—	—	2.40
3. Repayment of bank and other borrowings	—	14.30	—	—	—	—	14.30
4. General working capital	—	11.10	—	—	—	—	11.10
<b>Total net proceeds</b>	<b>—</b>	<b>62.03</b>	<b>30.51</b>	<b>11.56</b>	<b>6.70</b>	<b>0.60</b>	<b>111.40</b>

According to current estimates, our Directors expect that the net proceeds from the Placing of approximately HK\$111.4 million, the cash in bank and on hand, and banking facilities available to us as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient to finance the implementation of our future plans up to 31 December 2014.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:*

“Articles of Association” or “Articles”	the amended and restated articles of association of our Company adopted on 27 May 2012 with effect from the Listing Date and as amended from time to time
“associate”	has the meaning ascribed thereto under the GEM Listing Rules
“Beijing U-Ton”	Beijing U-Ton Teda Electrical New Technology Development Co., Ltd. (北京優通泰達電氣新技術發展有限公司) (formerly known as Beijing U-Ton Taida Network Science and Technology Co., Ltd. (北京優通泰達管網集成科技有限公司)), a limited liability company established on 22 January 2007 in accordance with the laws of the PRC and a wholly-owned subsidiary of Hebei Deer
“Believe Power”	Believe Power Investments Limited (信力投資有限公司), a limited liability company incorporated on 12 August 2005 in accordance with the laws of the BVI, which is owned as to 42.63%, 38.97% and 18.40% by Mr. Jiang, Mr. Li and Mr. Du, respectively
“Believe Power Deed of Confirmation”	the deed of confirmation in Chinese dated 28 June 2011 entered into between Partnerfield and Believe Power, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“Board”	the board of Directors
“Bookrunner” or “Lead Manager”	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
“Boom World”	Boom World Investments Limited (茂世投資有限公司), a limited liability company incorporated on 12 August 2005 in accordance with the laws of the BVI and wholly owned by Mr. Du
“Boom World Deed of Confirmation”	the deed of confirmation in Chinese dated 28 June 2011 entered into among Partnerfield, Boom World and Mr. Du, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus

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## DEFINITIONS

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“Bridgecity Deed of Termination”	the deed of termination in Chinese dated 28 June 2011 entered into among Bridgecity Investments Limited, Partnerfield, Believe Power and Mr. Yan, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“Bright Warm”	Bright Warm Limited, a limited liability company incorporated on 4 January 2011 in accordance with the laws of the BVI and wholly owned by Mr. Jiang. Bright Warm is our Controlling Shareholder, holding 60% of the total issued share capital of our Company upon Listing (assuming the Over-allotment Option is not exercised)
“Budgeting Measures”	Administrative Measures for Financial Estimates and Budgeting of Telecommunication Infrastructures (通信建設工程概算、預算編製辦法) published by the Ministry of Industry and Information Technology and became effective on 1 July 2008
“business day”	has the meaning ascribed thereto under the GEM Listing Rules
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of new Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the section headed “Further information about our Company — Resolutions in writing of all Shareholders passed on 27 May 2012” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCID Consulting”	CCID Consulting Company Limited (賽迪顧問股份有限公司), an Independent Third Party, a China-based professional market research and consulting firm listed on GEM (stock code: 8235)
“Circular 75”	the Notice on Relevant Issues Relating to the Administration of Foreign Exchange of Financing and Return Investment Activities by Domestic Residents Conducted via 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) issued by the SAFE issued on 21 October 2005
“Commerce & Finance”	Commerce & Finance Law Offices, legal advisers to our Company as to PRC law

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## DEFINITIONS

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“Companies Law” or “Cayman Companies Law”	the Companies Law (2011 Revision) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Company” or “our Company”	China U-Ton Holdings Limited (中國優通控股有限公司), an exempted company incorporated on 7 March 2011 with limited liability in accordance with the laws of the Cayman Islands
“Connected Person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and, in the context of this prospectus, means Mr. Jiang and Bright Warm
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC securities markets
“Deed of Indemnity”	the deed of indemnity dated 27 May 2012 and executed by Mr. Jiang, Bright Warm, Mr. Li and Ordillia in favour of our Company, the particulars of which are set forth in the section headed “Other information — Estate duty, tax and other indemnity” in Appendix IV to this prospectus
“Delong Deed of Termination”	the deed of termination in Chinese dated 28 June 2011 entered into among Delong China International Limited, Partnerfield, Believe Power, Mr. Yan, Plansmart, Boom World, Soo Fong To (蘇方桃) and Ordillia, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“Director(s)”	the director(s) of our Company
“Dragonview Deed of Termination”	the deed of termination in Chinese dated 28 June 2011 entered into among Dragonview Capital Inc., Partnerfield, Believe Power, Mr. Yan, Plansmart, Boom World, Soo Fong To (蘇方桃) and Ordillia, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“EIT”	enterprise income tax payable under the EIT Law
“EIT Law”	the enterprise income tax law of the PRC (中華人民共和國企業所得稅法)
“GEM”	the Growth Enterprise Market of the Stock Exchange

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## DEFINITIONS

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“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“GEM website”	the internet website at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> operated by the Stock Exchange for the purpose of GEM
“Golden Acropolis Deed of Termination”	the deed of termination in Chinese dated 28 June 2011 entered into among Golden Acropolis Management Limited, Partnerfield, Believe Power and Mr. Yan, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“Group”, “our Group”, “our”, “we” or “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries or the business currently operated by such subsidiaries, as the case may be
“Guofu Deed of Termination”	the deed of termination in Chinese dated 28 June 2011 entered into among Guofu (Hong Kong) Holdings Limited, Partnerfield, Believe Power and Mr. Yan, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“Hebei Changtong”	Hebei Changtong Communication Engineering Co., Ltd. (河北昌通通信工程有限公司) (formerly known as Hengshui Hengshun Telecommunication Co., Ltd. (衡水恒順通信有限公司) and Hengshui Changtong Telecommunication Engineering Co., Ltd. (衡水昌通通信工程有限公司)), a limited liability company established on 20 June 2000 in accordance with the laws of the PRC and a wholly-owned subsidiary of Hebei Deer
“Hebei Deer”	Hebei Deer City Network Technology Co., Ltd. (河北德爾城市網絡科技有限公司), a limited liability company established on 20 October 2003, converted into a sino-foreign equity joint venture enterprise on 31 October 2005, and converted into a wholly foreign-owned enterprise on 25 May 2011 in accordance with the laws of the PRC. Hebei Deer is a wholly-owned subsidiary of Partnerfield
“Hebei Ruihui”	Hebei Ruihui New Energy-saving Glass Products Co., Ltd. (河北瑞輝新型節能玻璃製品有限公司), a limited liability company established on 6 February 2009 in accordance with the laws of the PRC and the equity interests of which were owned as to 65% and 35% by Mr. Du and Mr. Zhang, respectively, as at 25 May 2011

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## DEFINITIONS

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“Hebei Xinhua”	Qinghe County Xinhua Cashmere Company Limited (清河縣鑫華羊絨製品有限公司), a limited liability company established on 21 September 1999 in accordance with the laws of the PRC
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hoifu Deed of Termination”	the deed of termination in Chinese dated 28 June 2011 entered into among HOIFU Investment Limited, Partnerfield, Believe Power and Mr. Yan, the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“IFRSs”	International Financial Reporting Standards
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any director, chief executive or substantial shareholder of our Company or its subsidiaries or any of their respective associates within the meaning of the GEM Listing Rules
“Latest Practicable Date”	1 June 2012, being the latest practicable date prior to the publication of this prospectus for ascertaining certain information contained in this prospectus
“Listing”	the listing of our Shares on GEM
“Listing Date”	the date on which dealings in the Shares first commence on GEM, which is expected to be on or around 12 June 2012
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM
“Major Telecommunication Operator”	our largest client during the Track Record Period, being one of the major telecommunication operators in the PRC and an Independent Third Party
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, adopted on 27 May 2012 with effect from the Listing Date and as amended from time to time
“Ministry of Construction”	Ministry of Construction of the PRC (中華人民共和國建設部)

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## DEFINITIONS

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“Ministry of Industry and Information Technology”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Ministry of Information Industry”	Ministry of Information Industry of the PRC (中華人民共和國信息產業部), the predecessor of the Ministry of Industry and Information Technology
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Du”	Mr. Du Yanhua (杜延華), a resident of the PRC and a member of our senior management
“Mr. Jiang”	Mr. Jiang Changqing (姜長青), a resident of the PRC, an executive Director, a Controlling Shareholder, and the spouse of Ms. Guo
“Mr. Li”	Mr. Li Qingli (李慶利), a resident of the PRC, an executive Director, a Substantial Shareholder, and the spouse of Ms. Ren
“Mr. Yan”	Mr. Yan Shibiao (顏世彪), a resident of the PRC and an Independent Third Party
“Mr. Zhang”	Mr. Zhang Jinli (張金利), a resident of the PRC and an Independent Third Party
“Ms. Guo”	Ms. Guo Aru (郭阿茹), a resident of the PRC, an executive Director, and the spouse of Mr. Jiang
“Ms. Ren”	Ms. Ren Yanping (任艷蘋), a resident of the PRC, and the spouse of Mr. Li
“M&A Regulations”	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) jointly issued by six PRC regulatory bodies, including the MOFCOM, the State-owned Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE on 8 August 2006
“Notice to the EIT Law”	Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知) issued by the State Council on 26 December 2007 and became effective on 1 January 2008
“Ordillia”	Ordillia Group Limited, a limited liability company incorporated on 29 September 2006 in accordance with the laws of the BVI and wholly owned by Mr. Li. Ordillia is a Substantial Shareholder, holding 15% of the total issued share capital of our Company upon Listing (assuming the Over-allotment Option is not exercised)



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## DEFINITIONS

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“Over-allotment Option”	the option granted by our Company to the Lead Manager under the Underwriting Agreement, pursuant to which the Lead Manager may require our Company to allot and issue up to 63,000,000 additional Shares, representing 15% of the Placing Shares initially being offered by our Company under the Placing to cover any over-allocation in the Placing
“Partnerfield”	Partnerfield Investments Limited, a limited liability company incorporated on 7 July 2005 in accordance with the laws of the BVI and a wholly-owned subsidiary of our Company
“PBOC”	the People’s Bank of China
“Placing”	the conditional placing of the Placing Shares at the Placing Price, as further described in the section headed “Information about this prospectus and the Placing” in this prospectus
“Placing Price”	HK\$0.34 per Placing Share (exclusive of brokerage, the Stock Exchange trading fee, and SFC transaction levy)
“Placing Shares”	the 420,000,000 new Shares being offered by our Company for subscription under the Placing
“Plansmart”	Plansmart Investments Limited, a limited liability company incorporated on 8 July 2005 in accordance with the laws of the BVI. Plansmart has been wholly owned by Mr. Li, our Substantial Shareholder, since 14 January 2011
“Plansmart Deed of Confirmation”	the deed of confirmation in Chinese dated 28 June 2011 entered into among Partnerfield, Plansmart and Mr. Zhang Gaobo (張高波), the particulars of which are set forth in the section headed “History, development and reorganisation” in this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Government” or “Chinese Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organisations of such government or, as the context requires, all of them
“Price Scale”	benchmark price scale set by the Ministry of Industry and Information Technology in accordance with the Budgeting Measures
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC

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## DEFINITIONS

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“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, the particulars of which are set out in the section headed “History, development and reorganisation — Reorganisation” in this prospectus
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“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 and supplemented from time to time
“Shaanxi Wanghe”	Shaanxi Wanghe City Network Technology Co., Ltd. (陝西旺河城市網絡科技有限公司), a limited liability company established on 14 March 2006 in accordance with the laws of the PRC and the equity interests of which were owned by an Independent Third Party
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.10 each in the capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 27 May 2012, the principal terms of which are set out in the section headed “Other information — Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Shijiazhuang Qiushi”	Shijiazhuang Qiushi Communication Facilities Co., Ltd. (石家莊求實通信設備有限公司), a limited liability company established on 25 March 1999 in accordance with the laws of the PRC and a wholly-owned subsidiary of Hebei Deer
“Sponsor”	Guotai Junan Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activities
“SPV”	special purpose vehicle
“State Council”	the State Council of the PRC (中華人民共和國國務院)

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## DEFINITIONS

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“Stock Borrowing Agreement”	the stock borrowing agreement dated 6 June 2012 and entered into between the Lead Manager and Bright Warm, pursuant to which the Lead Manager may borrow up to an aggregate of 63,000,000 Shares to cover any over-allocation in the Pacing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong
“Track Record Period”	the two financial years ended 31 December 2010 and 2011
“Underwriters”	the underwriters of the Placing named in the section headed “Underwriting — Underwriters” in this prospectus
“Underwriting Agreement”	the underwriting agreement relating to the Placing entered into on 6 June 2012 between our Company, the Controlling Shareholders, the Sponsor, the Lead Manager and the Underwriters, the particulars of which are summarised in the section headed “Underwriting” in this prospectus
“United States” or “US” or “USA”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax of the PRC (中華人民共和國增值稅)
“km”	kilometre(s)
“mm”	minimetre(s)
“sq. ft.”	square foot (feet)
“sq. m.”	square metre(s)
“%”	per cent.

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## DEFINITIONS

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The English names of the PRC entities, the PRC laws or regulations or the PRC governmental authorities mentioned in this prospectus are translation or transliteration from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

Unless the context requires otherwise, translation of US\$ into HK\$ and RMB into HK\$ is made in this prospectus, for illustration purpose only, at the rates of US\$1.00 = HK\$7.78 and RMB0.8107 = HK\$1.00. No representation is made that any amount in US\$, HK\$ or RMB could have been or could be converted at the above rate or at any other rate or at all.

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.

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## GLOSSARY OF TECHNICAL TERMS

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

“blowing”	a way that micro-ducts and mini-cables be blown into a tubular route using airflow. The air moves past the micro-ducts at high speed and provides a gentle and stress-free drive at all points along the micro-ducts
“cable troughing”	a method whereby a small trough is made just beneath the surface of the road for installations of pipe(s)
“cable” or “optical fiber cable” or “optical fibers”	a cable containing one or more optical fibers. The optical fiber elements are typically individually coated with plastic layers and contained in a protective tube suitable for the environment where the cable will be deployed
“HDPE”	high-density polyethylene
“low-voltage equipment integration services”	low-voltage equipment and integration services in relation to certain automation such as communication automation and building automation
“micro-ducts”	small ducts with an inner diameter ranging from 3mm to 16mm. They are used to held several mini-cables and are installed as bundles within a larger duct
“micro-ducts and mini-cables system integration methods”	deployment methods which require our solution including the design of routing of optical fibers, deployment methods to be used, materials to be used including optical fibers, the necessary engineers and manpower to lay the optical fibers, laying services, connection and testing of the optical fibers until completion and relevant deployment projects include a combination of certain methods known as in-sewer, pipe jacking and cable troughing utilising our patented technology in relation to micro-ducts and mini-cables
“mini-cables”	optical fiber cables being installed within the micro-duct with a diameter ranging from typically 3mm to 16mm
“optical fiber”	a flexible, transparent fiber made of very pure glass not much wider than a human hair that acts as a waveguide, or light pipe, to transmit light between the two ends of the fiber
“pipe jacking”	a trenchless method for installation of pipes where the pipe is driven through the ground by pneumatic percussive blows
“seven-hole plum blossom pipe”	a bundle made up of six cylindrical pipes arranged concentrically, the cross section of which looks like a plum blossom

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would” or similar words or statements, in particular, in the sections headed “Industry overview”, “Business” and “Financial information” in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on various assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our ability to implement such strategies;
- our ability to further develop and manage our projects as planned;
- our dividend distribution plans;
- changes in policies, legislation, regulations, or practices in Hong Kong, the PRC or any other countries or territories in which we operate that may affect our projects;
- changes in economic conditions and competition in the areas in which we operate, including a downturn in general economy in China;
- exchange rate fluctuations and restrictions;
- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters; and
- other factors beyond our control.

The Directors confirm that these forward-looking statements are made after due and careful consideration. Although our Directors believe that our current views as reflected in those forward-looking statements based on currently available information are reasonable, we cannot assure you that those views will prove to be correct, and investors are cautioned not to place undue reliance on such statements.

The words “anticipate”, “believe”, “could”, “estimate”, “intend”, “may”, “plan”, “seek”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws and regulations of the PRC Government and the rules, regulations and policies of the relevant PRC governmental authorities relating to all aspects of our business;

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## FORWARD-LOOKING STATEMENTS

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- general economic, market and business conditions in the PRC;
- macroeconomic policies of the PRC Government;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the effects of competition in the deployment services of optical fibers and low-voltage equipment integration services industries on the demand for and price of our services and products;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations and the GEM Listing Rules, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section. In this prospectus, unless otherwise stated, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

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## RISK FACTORS

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

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

### RISKS RELATED TO OUR GROUP

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

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

#### **We rely on the major telecommunication operators in the PRC**

We principally derive our revenue from providing deployment services of optical fibers to a limited number of major clients. For the two years ended 31 December 2010 and 2011, revenue derived from our five largest clients in aggregate amounted to approximately RMB47.2 million and RMB129.3 million, respectively, representing approximately 96.0% and 79.7%, respectively, of our total revenue and revenue derived from the Major Telecommunication Operator, our largest client, for the two years ended 31 December 2010 and 2011 was approximately RMB38.9 million and RMB106.8 million, and accounted for approximately 75.5% and 66.0% of our total revenue respectively. We expect that we will continue to rely on the revenue derived from providing deployment services of optical fibers to such kind of clients, therefore, any decrease or delay in demand for our services from them could have an adverse effect on our operations and financial results. Our results of operations thus depend on the



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## RISK FACTORS

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business development plan and performance of the Major Telecommunication Operator, which may be affected by, including but not limited to, the overall economic condition and policies implemented by the PRC Government. Any business downturn to be faced by the Major Telecommunication Operator may in turn adversely affect our business and growth prospect.

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

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

### **We may not be able to operate successfully in new markets**

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

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

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

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

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

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## RISK FACTORS

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

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

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


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

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

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## RISK FACTORS

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

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

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

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

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

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

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

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## RISK FACTORS

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

We purchase materials such as steel wires and polyethylene for the manufacturing of our micro-ducts and anti-corrosive steel wires. We outsource the manufacturing process of micro-ducts to manufacturers, who are Independent Third Parties, by providing them with materials of our own recipe and provide steel wires and coating materials of our own recipe to manufacturers, who are Independent Third Parties for their reprocessing of the steel wires into anti-corrosive steel wires. We also purchase certain parts and components such as mini-cables, connectors and reserve boxes for our provision of deployment services of optical fibers using micro-ducts and mini-cables system integration methods. The fluctuation in the prices of such raw materials, parts and components is subject to different factors beyond our control, such as fluctuations in the prices of commodities and changes in economic conditions and PRC governmental policies. For the two years ended 31 December 2010 and 2011, our material costs amounted to approximately RMB6.8 million and RMB32.8 million, respectively, representing approximately 24.1% and 37.9% respectively of our cost of sales/services during the same periods, respectively.

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

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

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

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

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

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## **RISK FACTORS**

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

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

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

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

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

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

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

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

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

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## RISK FACTORS

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

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

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

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

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

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

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

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## RISK FACTORS

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

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

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

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

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

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

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## RISK FACTORS

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

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

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

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

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

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

While we have obtained the rights to use the public sewer systems for the purpose of deployment of optical fibers in certain cities or districts, our clients may not engage us to provide maintenance



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

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

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

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

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

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

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### **We may not be able to enjoy preferential tax treatments after Listing**

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

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

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

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

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

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

During the Track Record Period, our subsidiaries in the PRC made advances to and received advances from third party companies which were interest free in the PRC. Our Group has fully received and settled such advances prior to the Listing. As advised by Commerce & Finance, such lending activities contravened certain provisions of the Lending General Provisions (貸款通則)

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

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

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

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

### **We may be unable to renew the requisite qualifications and certifications**

Commerce & Finance confirmed that each of the PRC subsidiaries of our Company has obtained all the necessary governmental authorisations, approvals and certificates under PRC laws and regulations to conduct its business. The majority of such qualifications and certifications, including the Enterprise Qualification Certificate in Communication Information Network System Integration (通信信息網絡系統集成企業資質證書) and Computer Information System Integration Service Enterprise Qualification Certificate (通信信息網絡系統集成企業資質證書), shall be subject to

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renewal. Such qualifications and certifications would only be renewed if our Group has passed the requisite examination and we cannot assure you that we could meet the relevant requirements for the examination. If we are unable to renew the requisite qualifications and certifications upon their expiry, our operations will be adversely affected.

### **RISKS RELATED TO THE INDUSTRY IN WHICH WE OPERATE**

#### **We are dependent on the telecommunication industry**

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

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

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

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

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

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### RISKS RELATED TO THE PRC

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

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

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

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

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

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

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

The value of the Renminbi may fluctuate due to a number of factors. Since 1994, the conversion rate of Renminbi into foreign currencies, including the HK dollar and the U.S. dollar, has been set by the PBOC and the official exchange rate for the conversion of Renminbi to U.S. dollars has generally

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been stable. On 21 July 2005, the revaluation of the Renminbi resulted in an appreciation of the Renminbi against the U.S. dollar and the HK dollar by approximately 2%. As of 21 July 2005, the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies.

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

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

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

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

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

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

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond human control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Many major cities in the PRC are under threat of flood, earthquake, typhoon, sandstorm or drought. Our business, results of operations and financial condition may be adversely affected if such natural disasters occur. In particular, any future outbreaks of Severe Acute Respiratory Syndrome, Avian Flu or any other epidemic could have an adverse effect on our results of operations. Further, an outbreak of influenza A (H1N1) may, directly or indirectly, adversely affect our operating results. The virus is transmitted sufficiently easily from person-to-person to sustain institutional and community outbreaks and to spread regionally. If any of our employees or labours are identified as a possible source of spreading the new influenza A (H1N1) virus or other similar epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that have come into contact with those employees. We may also be required to disinfect our affected operational premises, which could adversely affect our operations. Even if we are not directly affected by the epidemic, an outbreak of influenza A (H1N1) or other similar epidemic in the PRC, could slow down or disrupt the level of economic activity generally, which could in turn adversely affect our operating results.

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

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

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

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

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resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties and where the consideration is not based on arm's length principle, thus resulting in lower taxable income, the competent tax authority has the authority to adjust the amount of taxable income pertaining to the transaction.

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

### **RISKS RELATED TO THE PLACING**

#### **Termination of the Underwriting Agreement**

Prospective investors of the Placing Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by the Lead Manager (for itself and on behalf of the Underwriters) giving notice in writing to our Company upon the occurrence of any of the events stated in the section headed "Underwriting — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, fire, flood, tsunami, explosions, epidemic, pandemic, acts of terrorism, earthquakes, strikes or lock-outs.

#### **Marketability and possible price and trading volume volatility of the Shares**

The Listing is by way of the Placing and the Shares have not been listed or allotted on any stock exchange or open market before completion of the Placing. There is no assurance that there will be an active trading market of the Shares on GEM upon Listing. In addition, the market price of the Shares to be traded on the GEM may differ from the Placing Price and investors should not treat the Placing Price as an indicator of the market price of the Shares to be traded on GEM.

Upon Listing, the trading volume and market price of the Shares may be affected or influenced by a number of factors from time to time, including but not limited to, the income, profit, and cash flow of our Group, new products, services and/or investments of our Group, changes of senior management of our Group, and general economic conditions. There is no assurance that such factors will or will not occur and it is difficult to quantify the impact on our Group and on the trading volume and market price of the Shares.

#### **Dilution of the Shareholders' equity interests**

One of the benefits to our Company upon Listing is the access to capital market and our Group may raise additional funds to finance future expansion of its business or operations or acquisitions. The Company will comply with Rule 17.29 of the GEM Listing Rules, which specifies that no further Shares or securities convertible into equity securities of the Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing



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Date. Upon expiry of such six-month period, our Group may raise additional funds by way of issue of new equity or equity-linked securities of our Company and such fund-raising exercises may not be conducted on a pro-rata basis to existing Shareholders. As such, the shareholding of the then Shareholders may be reduced or diluted.

### **Certain statistics and facts in this prospectus have not been independently verified**

This prospectus includes certain statistics and facts that have been extracted from governmental official sources and publications or other sources including, but not limited to, CCID Consulting. Our Directors believe that the sources of these statistics and facts are appropriate sources for such statistics and facts and have taken reasonable care in extracting and reproducing such statistics and facts. Our Directors have no reason to believe that such statistics and facts are false or misleading or that any fact has been omitted that would render such statistics and facts false or misleading. These statistics and facts have not been independently verified by our Company, the Sponsor, the Lead Manager, the Underwriters or any other party involved in the Placing and no representation is given as to their accuracy.

### **Forward-looking statements contained in this prospectus may prove inaccurate and therefore investors should not place undue reliance on such information**

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of the Directors. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of our Group and the development of the environment in which our Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of our Group to be different from the anticipated financial results, performance or achievements of our Group expressed or implied by these statements.

### **Investors may experience difficulties in enforcing Shareholders' rights because our Company is incorporated in the Cayman Islands**

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. The corporate affairs of our Company are governed by the Memorandum and Articles, the Companies Law and the common law of the Cayman Islands. The rights of the Shareholders to take legal action against our Company and/or our Directors, actions by minority Shareholders and the fiduciary duties of our Directors to our Company under Cayman Islands laws are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of the Shareholders and the fiduciary duties of our Directors under Cayman Islands laws may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors reside. In particular, the Cayman Islands have a less developed body of securities laws. As a result of all of the above, the Shareholders may have more difficulty in exercising their rights in the face of actions taken by the management of our Company, our Directors or major Shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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

This prospectus, for which our Directors collectively and individually accept full responsibility, includes 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 GEM Listing Rules for the purpose of giving information with regard to the Company. Our Directors, 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 herein or this prospectus misleading.

Printed copies of this prospectus are available, for information purposes only, at the offices of (i) Guotai Junan Securities (Hong Kong) Limited at 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong; (ii) Ample Orient Capital Limited at Unit A, 14/F, Two Chinachem Plaza, 135 Des Voeux Road Central, Hong Kong; (iii) Ever-Long Securities Company Limited at 18th Floor, Dah Sing Life Building, 99-105 Des Voeux Road Central, Hong Kong; (iv) Hong Kong International Securities Limited at 23rd Floor, Arion Commercial Centre, 2-12 Queen's Road West, Hong Kong; (v) South China Securities Limited at 28th Floor, Bank of China Tower, No. 1 Garden Road, Central, Hong Kong after 4:00 p.m. on 6 June 2012 and thereafter during normal office hours from 9:00 a.m. to 5:00 p.m. from 7 June 2012 up to and including 12 June 2012.

### **INFORMATION ON THE PLACING**

This prospectus is published solely in connection with the Placing.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus, on the terms and subject to the conditions set out herein. No person in connection with the Placing is authorised to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sponsor, the Bookrunner, the Lead Manager, the Underwriters, and any of their respective directors, agents, employees or advisers or any other person involved in the Placing.

### **FULLY UNDERWRITTEN**

The Listing is sponsored by the Sponsor. 420,000,000 Placing Shares are offered by our Company by way of the Placing, which is managed by the Lead Manager and is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement). Further information about the Underwriters and the underwriting arrangements is contained in the section headed "Underwriting" in this prospectus.

### **PLACING SHARES TO BE OFFERED IN HONG KONG ONLY**

Each person acquiring the Placing Shares will be required, and is deemed by his acquisition of the Placing Shares, to confirm that he is aware of the restrictions on offer of the Placing Shares described in this prospectus and that he is not acquiring, and has not been offered, any Placing Shares in circumstances that contravene any such restrictions.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus. Accordingly this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

Prospective investors for the Placing Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective investors for the Placing Shares should inform themselves as to the relevant legal requirements of applying for the Placing Shares and any applicable exchange control regulations in the countries of their respective citizenship, residence or domicile.

### **APPLICATION FOR LISTING OF THE SHARES ON GEM**

Our Company satisfies the requirements relating to continuity of ownership and control throughout the full financial year immediately preceding the Latest Practicable Date and up until the Listing Date under Rule 11.12A(2) of the GEM Listing Rules.

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and which are to be issued pursuant to the Placing (including any Shares to be issued under the Capitalisation Issue and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme) on the GEM. Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. A total of 420,000,000 Placing Shares, representing 25% of the enlarged issued share capital of our Company, will be in the hands of the public immediately following completion of the Placing and upon the Listing (without taking into account any new Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme).

No part of our Company's share capital or loan capital is listed or dealt in on any other stock exchange. As at the Latest Practicable Date, our Company was not seeking or proposing to seek a listing of, or permission to deal in, any part of its share capital or loan capital on any other stock exchange other than the GEM.

The Shares are freely transferable.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any placing of the Placing Shares will be void if permission for the listing of the Shares on the GEM has been refused before the expiration of three weeks from the date of closing of the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

All the Shares will be registered on the branch register of members of our Company in Hong Kong. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on the GEM unless the Stock Exchange otherwise agrees.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder.

### STAMP DUTY

Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

It is emphasised that none of our Company, our Directors, the Sponsor, the Bookrunner, the Lead Manager, the Underwriters and their respective directors or employees or any other persons involved in the Placing accepts responsibility for any tax effects on, or liability of, holders of the Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the GEM and compliance by our Company 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 such other date as 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. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

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 enabling the Shares to be admitted into CCASS.

### DEALINGS AND SETTLEMENT

Dealings in the Shares on the GEM are expected to commence on 12 June 2012.

The Shares will be traded in board lots of 10,000 Shares.

The GEM stock code for the Shares is 8232.

Our Company will not issue any temporary document of title.

### STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure and conditions of the Placing are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Jiang Changqing (姜長青)	E01-2-301, Yuanmingyuan Garden Villa Haidian District Beijing, China	Chinese
Ms. Guo Aru (郭阿茹)	E01-2-301, Yuanmingyuan Garden Villa Haidian District Beijing, China	Chinese
Mr. Li Qingli (李慶利)	Flat 502, Unit 4, Tower 2 Section 2, Zhuoda Shuxiang Yuan No. 389 Zhaiying Street, Yuhua District Shijiazhuang Hebei Province China	Chinese
<i>Independent non-executive Directors</i>		
Mr. Meng Fanlin (孟繁林)	No. 5, Unit 2, Building 12 Xinglong Li Haigang District Qinhuangdao Hebei Province, China	Chinese
Mr. Wang Haiyu (王海玉)	Jia No. 56 Nan Fang Jia Zhuang Fengtai District Beijing, China	Chinese
Ms. Li Xiaohui (李曉慧)	No. 3 San Li He Nan San Xiang Xi Cheng District Beijing, China	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### PARTIES INVOLVED

<b>Sponsor</b>	<b>Guotai Junan Capital Limited</b> 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
<b>Bookrunner and Lead Manager</b>	<b>Guotai Junan Securities (Hong Kong) Limited</b> 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
<b>Legal advisers to the Company</b>	<i>As to Hong Kong law:</i> <b>Li &amp; Partners</b> Rooms 2201-03 22/F, World-Wide House 19 Des Voeux Road Central Central Hong Kong  <i>As to PRC law:</i> <b>Commerce &amp; Finance Law Offices</b> 6/F, NCI Tower A12 Jianguomenwai Avenue Beijing 100022, PRC  <i>As to Cayman Islands law:</i> <b>Appleby</b> 2206-19 Jardine House 1 Connaught Place Central Hong Kong
<b>Legal advisers to the Sponsor and the Underwriters</b>	<i>As to Hong Kong law:</i> <b>Pang &amp; Co.</b> Level 76, International Commerce Centre 1 Austin Road West Kowloon Hong Kong  <i>As to PRC law:</i> <b>Beijing Kangda Law Firm</b> 2301, CITIC Building No.19 Jianguomenwai Street Beijing 100004, PRC

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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**Auditors and reporting accountants**

**Deloitte Touche Tohmatsu  
Certified Public Accountants**  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

**Property valuer and consultant**

**Jones Lang LaSalle Corporate Appraisal and Advisory  
Limited**  
6/F, Three Pacific Place  
1 Queen's Road East  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
<b>Head office, headquarters and principal place of business in the PRC</b>	Room 20-905, East Zone, Century Garden Donggang Road, Shijiazhuang Hebei Province China
<b>Principal place of business in Hong Kong</b>	Rooms 2201-03 22/F, World-Wide House 19 Des Voeux Road Central Central Hong Kong
<b>Company's website address</b>	www.chinauton.com <i>(information on the website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Pang Chun Kit (ACCA, HKICPA)
<b>Authorised representatives</b>	Mr. Jiang Changqing E01-2-301, Yuanmingyuan Garden Villa Haidian District Beijing, China  Mr. Pang Chun Kit Flat A, 9/F, Block 3 Cotton Tree Mansions Whampoa Garden Hung Hom Kowloon, Hong Kong
<b>Compliance Officer</b>	Mr. Li Qingli
<b>Audit Committee</b>	Ms. Li Xiaohui (Chairperson) Mr. Meng Fanlin Mr. Wang Haiyu
<b>Remuneration Committee</b>	Mr. Wang Haiyu (Chairperson) Ms. Li Xiaohui Mr. Meng Fanlin
<b>Nomination Committee</b>	Mr. Meng Fanlin (Chairperson) Ms. Li Xiaohui Mr. Wang Haiyu
<b>Compliance Adviser</b>	Guotai Junan Capital Limited



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## CORPORATE INFORMATION

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**Principal bankers**

China Construction Bank  
Shijiazhuang Guangan Dajie Branch  
No.26, Guangan Dajie, Shijiazhuang  
Hebei Province  
China

Industrial and Commercial Bank of China  
Beijing Beitaipingzhuang Branch  
No.33, North Road, Beitaipingzhuang  
Beijing  
China

**Cayman Islands principal share  
registrar and transfer office**

Appleby Trust (Cayman) Ltd.  
Clifton House  
75 Fort Street  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

**Hong Kong branch share registrar  
and transfer office**

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

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## INDUSTRY OVERVIEW

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*This section contains information and statistics on the industry in which our Group operates. The information set out in this section has been extracted from an industry review report compiled by CCID Consulting as commissioned by our Company. CCID Consulting, an Independent Third Party, is principally engaged in the provision of market research and management consultancy services. The principal activities of its subsidiaries comprise the provision of data information management services, and public relationship consultancy services. The amount of fees payable by us to CCID Consulting is RMB400,000. Save for the aforesaid industry review report compiled by CCID Consulting, no other such report was commissioned by our Company. In view of the background and credentials of CCID Consulting, the method of research adopted by CCID Consulting in preparation of the industry review report, the independence of CCID Consulting from our Company and the confirmation from CCID Consulting that the data in its report is true and reliable, our Directors consider that there is 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 Sponsor, the Lead Manager, the Underwriters or any other party involved in the Placing and no representation is given as to its accuracy.*

### INTRODUCTION

We have commissioned CCID Consulting, an independent market research company based in China, to analyse and report on the deployment market of optical fibers and low-voltage equipment integration services market in China. To provide an analysis of these markets, CCID Consulting combined research by applying its macro-economic outlook and its understanding of the development patterns of the relevant industry. Data collection was carried out by analysts with specific knowledge of the deployment market of optical fibers and low-voltage equipment integration services market. Secondary sources such as company report and historical market data were generated through the analysis of relevant data such as trade and consumption that were prepared by various PRC Government and industry associations, such as Ministry of Industry and Information Technology, National Bureau of Statistics, Ministry of Communications and Ministry of Railways. In preparing its report, CCID Consulting also conducted interviews with telecommunication operators and low-voltage equipment integration companies in the PRC to support its forecast model. The interviews also served as a method of cross-checking and data verification. Market forecasts present the view of CCID Consulting of the key demand market drivers to determine the future development of the deployment market of optical fibers and low-voltage equipment integration services market in China. The information and statistics as set forth in this section have been extracted from the report issued by CCID Consulting.

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## INDUSTRY OVERVIEW

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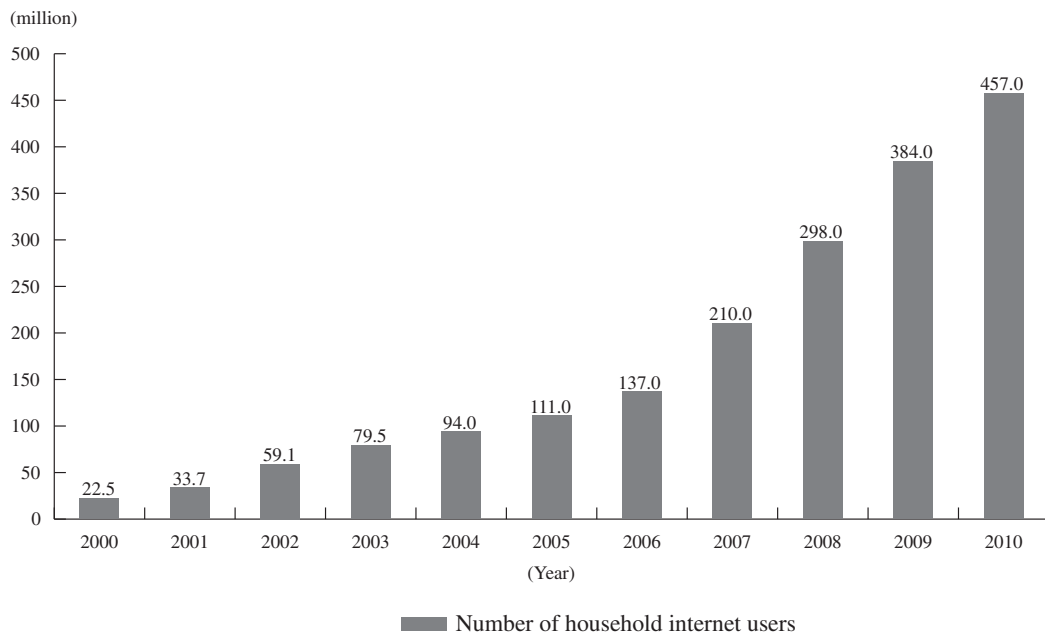
### DEPLOYMENT SERVICES OF OPTICAL FIBERS

#### I. Market overview

- *Market overview on the use of internet*

Internet users use different internet access technologies, such as optical fibers, digital subscriber line, mobile telecommunications service and cable modem, to access internet. Given that the use of optical fibers is one of the internet access technologies, the demand on the internet access may indirectly affect the development of the deployment services of the optical fibers. The number of internet users in China grew rapidly from 2000 to 2010. During the years from 2000 to 2010, the annual compound growth rate of the number of household internet users in China was approximately 35.1% and the number of household internet users in China reached 457.0 million in 2010. The following diagram set forth the number of household internet users in China from 2000 to 2010:

**Number of household internet users in China from 2000 to 2010**



Source: CCID Consulting

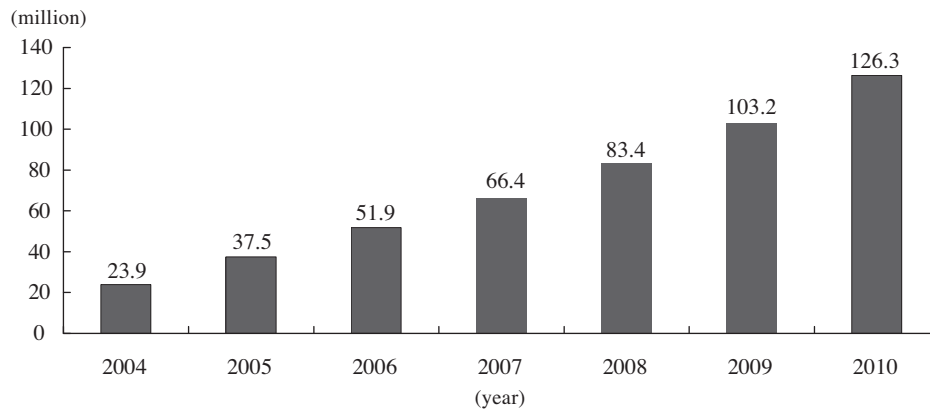
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## INDUSTRY OVERVIEW

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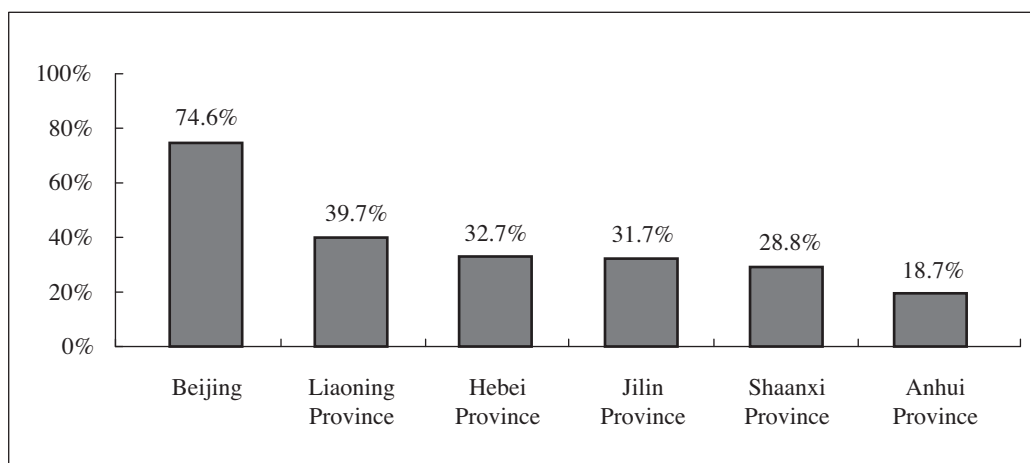
In view of the nature of the optical fibers which can generally transmit the data at a faster rate if compared with other internet access technologies as mentioned above and considering that the growth of the broadband internet users implicitly shows the demand on faster transmission rate of internet users, the demand on the optical fibers as well as the deployment services of optical fibers is expected to be driven by the growth of broadband internet users. During the years from 2004 to 2010, the number of broadband internet users in China maintained a steady growth with the compound annual growth rate of approximately 32.0%. The number of broadband household internet users in China reached to approximately 126.3 million in 2010. The following diagrams set forth the number of broadband household internet users in China from 2004 to 2010 and the prevalence rate of broadband network in Beijing, Liaoning Province, Jilin Province, Shaanxi Province and Anhui Province in China in 2010:

### Number of broadband household internet users in China between 2004 and 2010



Source: CCID Consulting

### Prevalence rate of broadband network in certain provinces or city of China in 2010



Source: CCID Consulting

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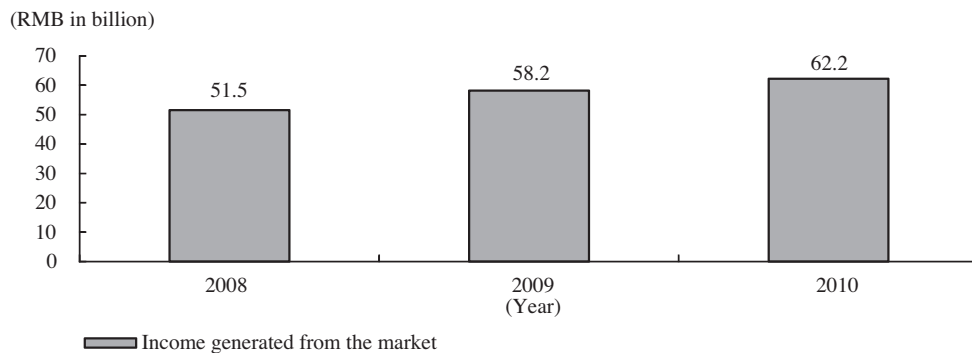
## INDUSTRY OVERVIEW

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- **Market overview on the deployment of optical fibers**

During the years from 2008 to 2010, the income generated from the deployment market of optical fibers in China grew gradually with the compound annual growth rate of approximately 9.9% and reached RMB62.2 billion in 2010. The following diagram set forth the income generated from deployment market of optical fibers in China from 2008 to 2010:

**The income generated from optical fibers deployment industry in China between 2008 to 2010**



Sources: CCID Consulting

- **Market overview on the deployment of optical fibers with micro-ducts and mini-cables**

As for the traditional deployment method, such as direct burial of optical fibers, the number of optical fibers deployed is usually based on the estimated final demand of optical fiber infrastructure, resulting in an excessive one-time investment and problems such as idleness of optical fibers and low utilisation rates.

In utilising micro-ducts and mini-cables system integration methods, the micro-ducts and mini-cables can be blown into the pipes in phase depending on the then market demand, thereby reducing the initial investment and providing greater flexibility in expansion capacity.

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

Major manufacturers of optical fibers have introduced micro-ducts and mini-cables related products and are promoting the application of micro-ducts and mini-cables. However, as the telecommunication operators in the PRC are still treating the market of micro-ducts and mini-cables as a pilot phase, the development of the market regarding the deployment of micro-ducts and mini-cables in China is at an early stage.

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## INDUSTRY OVERVIEW

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- *Techniques adopted in the deployment of the optical fibers*

Currently, except a few rare methods being used in particular geographical environment, such as for deployment of optical fibers in seabed, there are various commonly used methods regarding the deployment of optical fibers including (i) the traditional deployment methods such as direct burial and aerial access to deploy optical fibers and (ii) the micro-ducts and mini-cables system integration methods which involve the application of a combination of certain deployment methods known as in-sewer, pipe jacking and cable troughing utilising micro-ducts and mini-cables and related techniques.

The size of market of optical fibers deployment industry utilising micro-ducts and mini-cables has been relatively steady during the recent years. As at the end of 2010, the market size of optical fibers deployment industry utilising micro-ducts and mini-cables in China reached RMB820.0 million, of which 55% accounted for telecommunication operators, and accounted for 1.3% of the entire optical fibers deployment market.

### II. Our market share and competition

Considering the size of our business regarding the provision of the deployment services of optical fibers and the scale of the deployment industry of optical fibers, we believe that our market share is minimal to the aforesaid industry as at the Latest Practicable Date.

In relation to deployment services by traditional deployment methods, we primarily compete with all companies which are engaged in the provision of the deployment services, such as China Communications Services Corporation Limited (中國通信服務股份有限公司) which provides integrated support services in the field of information technologies including but not limited to telecommunications infrastructure services ranging from design, construction and project supervision and management.

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

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

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## INDUSTRY OVERVIEW

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### III. Market trend

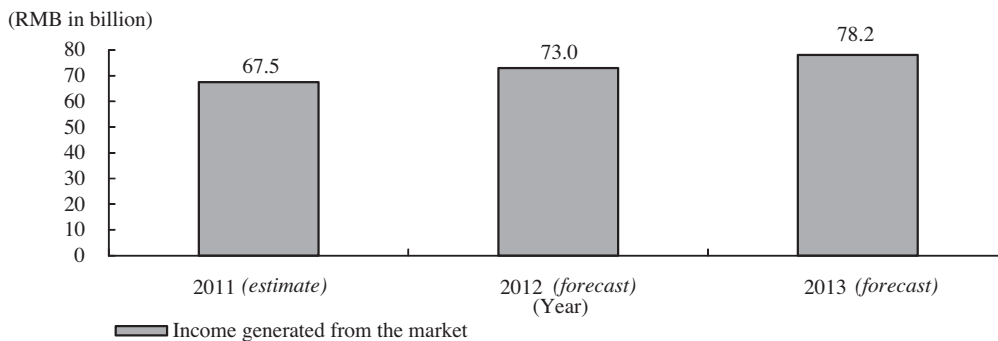
- *Major challenges to the market*

Currently, three major telecommunication operators have experienced our micro-ducts and mini-cables system integration methods on trial basis. Given that the deployment services of optical fibers by using the micro-ducts and mini-cables system integration methods are mainly rendered for the major telecommunication operators in the PRC, the development of such market is principally subject to the attitude and demand of the telecommunication operators in the PRC and the growth of the deployment market of optical fibers in the PRC.

- *Future opportunities*

According to the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), the level of urbanisation in China, which is expressed in the ratio of municipal population to total population in China, is expected to exceed 50% at the end of 2015 resulting in greater opportunities for the growth of deployment market of optical fibers in China. The following diagram set forth the estimate or forecast of the income generated from deployment market of optical fibers in China from 2011 to 2013:

**Estimate or forecast of the income generated from  
deployment market of optical fibers in China from 2011 to 2013**



Sources: CCID Consulting

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## INDUSTRY OVERVIEW

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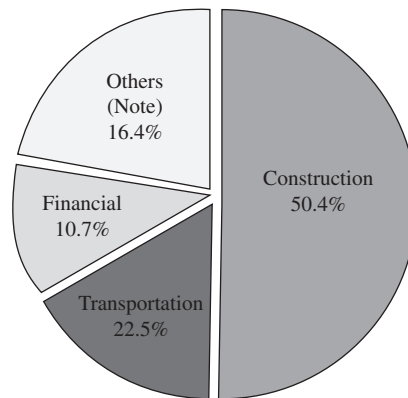
### LOW-VOLTAGE EQUIPMENT INTEGRATION SERVICES

#### I. Market overview

- *Composition of the applications of the low-voltage equipment integration*

Low-voltage equipment integration principally refers to communication automation, building automation, office automation, fire automation and security automation. The application of the low-voltage equipment integration is focused primarily on several industries, such as construction industry, transportation industry and financial industry. The following diagram set forth the composition of the applications of the low-voltage equipment integration in 2010:

#### Composition of the applications of the low-voltage equipment integration in 2010



Source: CCID Consulting

Note: Others principally comprise the application of the low-voltage equipment integration on petroleum industry and electricity and water conservancy industries



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## INDUSTRY OVERVIEW

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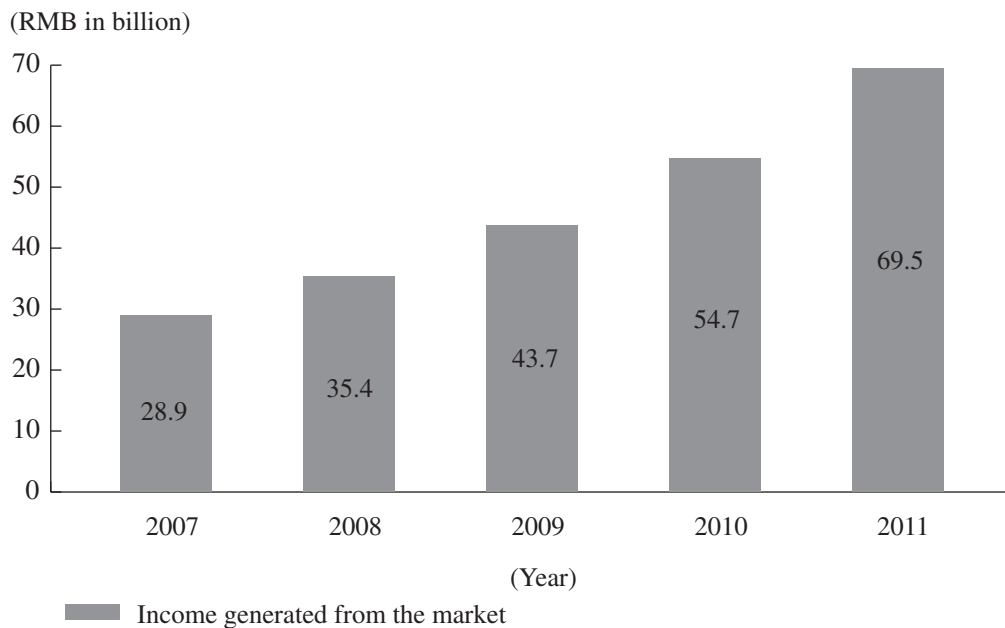
- ***Growth of the domestic market***

In 2011, while the global economy was affected by a series of uncertainties including the European debt crisis, the overall economy still maintained a positive development momentum, especially the pace of global economic recovery was driven by the steady growth of economies such as China. With the continuous increase in construction investments, the market demand for low-voltage equipment integration services further increased accordingly.

The market of low-voltage equipment integration services grows gradually under the continuous increase in construction investment in the PRC which drives the demand of modernisation of functions for intelligent buildings.

During the years from 2007 to 2011, the income generated from the low-voltage equipment integration services market grew with the compound annual growth rate of approximately 24.5% and reached to approximately RMB69.5 billion in 2011. The following diagram set forth the income generated from the low-voltage equipment integration industry in China from 2007 to 2011:

**The income generated from the low-voltage equipment integration industry in China between 2007 and 2011**



Source: CCID Consulting

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## INDUSTRY OVERVIEW

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### II. Our market share in Hebei Province and competition

Considering the size of our business regarding the provision of the low-voltage equipment integration services and the scale of the low-voltage equipment integration industry in Hebei Province, we believe that our market share is minimal to the aforesaid industry in Hebei Province as at the Latest Practicable Date.

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

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

### III. Market trend

- *Major challenges to the market*

As for the future competition, given that the low-voltage equipment integration market is situated at a growing stage, the concentration and the competition of the market will be gradually increased. New entrants will be demanded for high capital strength and technological capability requirements. In the foreseeable future, local enterprises with stronger capital strength and technological capabilities are expected to be able to survive and increase its market share in the industry.

- *Future opportunities*

The 12th Five-Year Plan for Construction Industry (建築業發展「十二五」規劃) issued by Ministry of Housing and Urban-Rural Development (中華人民共和國住房和城鄉建設部) has focused on the development of high and new technologies and the PRC Government has formulated relevant development planning on intelligent buildings. This national policy is expected to drive ample business opportunities for low-voltage equipment integration companies in the PRC.

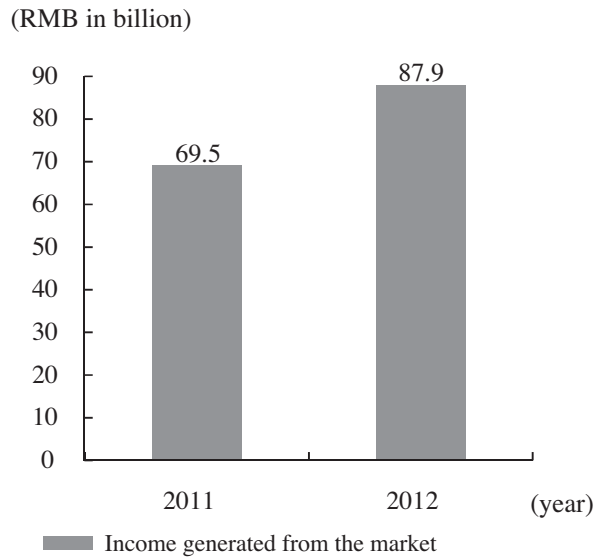
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## INDUSTRY OVERVIEW

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In the coming two to three years, with the rapid development in the construction, transportation and financial industries in China, the market for low-voltage equipment integration is expected to grow in 2011 and 2012. It is anticipated that it will reach to approximately RMB69.5 billion in 2011 and RMB87.9 billion in 2012. The following diagram set forth the forecast of the income generated from low-voltage system integration market in China from 2011 to 2012:

**The forecast of the income generated from  
low-voltage equipment integration market in China from 2011 to 2012**



Source: CCID Consulting

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## PRC REGULATORY FRAMEWORK

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### PRC LAWS ON CORPORATE BUSINESS REGULATION

#### Communication Engineering

Pursuant to the Regulations on Administration of Construction Enterprises Qualification (建築企業資質管理規定) promulgated by the Ministry of Construction of the PRC (中華人民共和國建設部) on 26 June 2007 and became effective on 1 September 2007, construction enterprises which have obtained the relevant qualification shall engage in the construction activities limited to the scope set out in their qualifications.

The Classification of Qualification of Construction Enterprises (建築業企業資質等級標準) issued by the Ministry of Construction on 20 April 2001 and became effective on 1 July 2001, set out the standard of classification to evaluate construction enterprises. Professional construction enterprises for intelligent building with qualification of Grade III (建築智能化工程專業承包三級) shall satisfy requirements such as (i) having conducted the construction of two qualified intelligent buildings or integrated wiring projects with contract value of over RMB2.0 million in the past five years; (ii) employing manager and technology and finance personnel with the required title and experience for more than five years and corresponding professional staffs; (iii) having a registered capital of more than RMB2.0 million and net assets of more than RMB2.4 million; (iv) attaining the highest annual settled project income of over RMB3.0 million in the past three years; and (v) having construction machines and quality testing equipments compatible with the corresponding scope of construction projects. The enterprises with qualification of Grade III shall undertake the projects of intelligent building with contract value less than RMB6.0 million.

Professional construction enterprises for telecommunication with qualification of Grade III (電信工程專業承包三級) shall also satisfy requirements such as (i) having conducted more than two of the required and qualified projects; (ii) employing manager and technology and finance personnel with the required title and experience for more than five years and corresponding professional staffs; (iii) having a registered capital of more than RMB5.0 million and net assets of more than RMB8 million; (iv) attaining the highest annual settled project income of over RMB50.0 million in the past three years; and (v) having construction machines and quality testing equipments be compatible with the corresponding scope of construction projects. The enterprises with qualification of Grade III shall undertake the projects of telecommunication with contract value less than RMB5.0 million.

#### Production Safety

The Production Safety Law of the PRC (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress on 29 June 2002 and became effective on 1 November 2002, is the principal law governing the supervision and administration of production safety and labour protection. The law requires the construction enterprises to set up organisations or be manned by full-time personnel for safety production control. Safety facilities of new construction, re-construction or expansion projects shall be designed, constructed, produced and used at the main construction area of the projects.

Pursuant to the Regulations on Administration of Construction Safety (建設工程安全生產管理條例) promulgated by the State Council and passed on 12 November 2003 and became effective on 1 February 2004, construction enterprises engaged in such activities as building, expansion, renovation,

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or demolition shall meet the requirements prescribed by the State Council such as the registered capital, professional technicians, technological equipment and work safety condition and the construction enterprises shall obtain a corresponding qualification certificate in accordance with law. Qualified enterprises shall undertake projects limited to the scope set out in their qualification.

Pursuant to the Regulations on Safety Production Licences (安全生產許可證條例), promulgated by the State Council on 13 January 2004, the State Council adopts a licensing system for construction enterprises in safety production. Enterprise that has not obtained a safety production licence shall not conduct construction activities. The Administrative Department of Construction under the State Council is responsible for the issuance and administration of safety production licences of construction enterprises that are administered by the PRC Government. The Administrative Department of Construction under the people's government of the provinces, autonomous regions or municipalities directly under the PRC Government are responsible for the issuance and administration of safety production licences of construction enterprises that are not specified in the preceding paragraph, and are subject to the guidance and supervision of the Administrative Department of Construction under the State Council. The validity of a safety production licence is three years. If an extension to the validity period is required upon expiration of a safety production licence, the enterprise shall, three months prior to the expiration, go through the extension procedures with the department that issues and administers such safety production licence.

Pursuant to the Provisions on the Administration of the Safety Production Licences for Construction Enterprises (建築施工企業安全生產許可證管理規定) promulgated by the Ministry of Construction and became effective on 5 July 2004, the Opinions on Implementation of Provisions on the Administration of the Safety Production Licences for Construction Enterprises (建築施工企業安全生產許可證管理規定實施意見) promulgated by the Ministry of Construction and became effective on 27 August 2004 and the Supplemental Provisions on Strict Implementation of the Safety Production Licences for Construction Enterprises (關於嚴格實施建築施工企業安全生產許可證制度的若干補充規定) promulgated by the Ministry of Construction and became effective on 25 January 2006, construction enterprises shall meet certain safety production requirements such as establishing the responsibility system for safety in production and setting up organisations for the control of work safety and apply for safety production licences from the Administrative Department of Construction at provincial level or above before conducting construction activities.

### **Security and Prevention Product**

Pursuant to the Standard for Qualification of Security and Prevention Project Enterprises (關於安防工程企業資質評定標準) issued by the China Security and Protection Industry Association (中國安防行業協會) on July 2007, the qualification of security and protection project enterprises is divided into three grades and Grade I is the highest level. Enterprises of Grade I shall meet requirements such as (i) having a registered capital of more than RMB5.0 million; (ii) obtaining the qualification of Grade II for more than two years; (iii) having conducted more than five design and construction of security and protection projects of Grade I which is qualified after testing, acceptance or assessment in the past two years; (iv) having the total contract value of completed security and protection projects of more than RMB16.0 million with one of them which has the contract value of more than RMB3.0 million; (v) having sufficient qualified professional technicians and cost engineer; (vi) having signed and committed to be the Integrity Convention of Security and Protection Enterprises; (vii) having passed the Quality System Management Verification GB/T 19001; (viii) no serious liability or accident occurred in the past two years during the contracted projects; and (ix) having established and maintained a safe production management system.

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Pursuant to the Measures on Administration of Security and Protection Products (安全技術防範產品管理辦法) promulgated jointly by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗疫總局) and the Ministry of Public Security of the PRC (中華人民共和國公安部) on 16 June 2000 with effect from 1 September 2000, the administration of security and protection product is subject to production licensing system of industrial products or security authentication system, while other security and protection products are subject to production registration system.

### **Communication and Information Network System Integration**

Pursuant to the Measures on Administration of Communication and Information Network System Integration Enterprises (Trial) (通信信息網絡系統集成企業資質管理辦法(試行)) promulgated by the Ministry of Information Industry on 16 August 2001, enterprises engaged in the communication and information network system integration business shall not conduct such construction activities until the Communication and Information Network System Integration Enterprises Qualification (通信信息網絡系統集成資質證書) is obtained. Enterprises shall meet a series of requirements to obtain the qualification of Grade II, including but not limited to (i) having the responsible persons with more than three years of communication construction or enterprise management experience and intermediate title or above; (ii) with the number of project technology or economic management staff of different degrees or titles not being less than the quorum; (iii) the registered capital of not less than RMB8.0 million; and (iv) having completed communication and information network system integration projects with contract value greater than RMB80.0 million in the past three years. The requirements for the qualification of Grade III include (i) having a responsible person with more than two years of communication construction or enterprise management experience; (ii) the registered capital of not less than RMB5.0 million; and (iii) having completed communication and information network system integration projects with contract value greater than RMB40.0 million in the past three years. Enterprises with qualification shall conduct business within the scope stipulated in the approved grade. Enterprises with qualification of Grade II shall undertake communication network and telecommunications support network projects of less than RMB20.0 million and telecommunication basic network projects of less than RMB10.0 million. Enterprises with qualification of Grade III shall undertake communication network and telecommunications support network projects of less than RMB10.0 million and telecommunication basic network projects of less than RMB5.0 million. Communication and information network system integration qualifications are subject to annual review system. The telecommunication and information administrations of provinces, autonomous regions and municipalities directly under the PRC Government are responsible for the examination and approval for enterprises which are not owned by the PRC Government with qualifications of Grade II/III and report to the Ministry of Information Industry for record.

### **Computer Information System Integration Certification**

Pursuant to the Measures on Administration of Computer Information System Integration Certification (Trial) (計算機信息系統集成資質管理辦法(試行)) promulgated on 12 December 1999 by the Ministry of Information Industry, any units which would like to engage in computer information system integration business shall pass the certification authentication and obtain the computer information system integration certification (計算機信息系統集成資質證書). The Ministry of Information Industry is responsible for the administration of computer information system integration

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certification authentication, including appointment and administration of certificate authentication institutions, issuance of administrative measures and standards, approval and promulgation of authentication results. The validity of the certificate is four years. The Certificate Authentication Working Office (資質認證工作辦公室) shall conduct biennial review on the qualified units.

According to the Notice of Ministry of Information Industry on Adjusting Validity Term of Computer Information System Integration Certification and Renewing the Certificate with New Version (信息產業部關於調整計算機信息系統集成資質證書有效期及換發新版資質證書的通知) issued by the Ministry of Information Industry on 10 January 2007, the validity term of the Certificates is changed to three years and the biennial review is cancelled from 1 July 2007.

The Requirements for Grade Estimation of Computer Information System Integration Certification (Revised) (計算機信息系統集成資質等級評定條件(修訂版)) promulgated on 13 October 2003 by the Ministry of Information Industry set out the specific requirements for enterprises to obtain the certificates of each grade. Enterprises applying for certificate of Grade III shall meet the requirements in performance, technology and management capacity and staff aspects, including but not limited to the enterprise, with the registered capital of more than RMB2.0 million, must have engaged in the system integration for more than two years and have completed at least one project of which the contract value is greater than RMB5.0 million in the past three years. The responsible person shall have more than three years of enterprise management experience in the electronic information technology domain. Furthermore, the number of relevant staff should not be less than 50 and at least 80.0% of them should have a bachelor degree or above.

Commerce & Finance confirmed that each of our Group's subsidiaries in the PRC has obtained all the necessary governmental authorisations, approvals and relevant certificates required by the PRC laws and regulations to conduct their respective business within the scope of its business licences. As at the Latest Practicable Date, such authorisations, approvals and relevant certificates have not been revoked.

### **Advanced Technology Enterprises**

The Administrative Measures for the Determination of Advanced Technology Enterprises (高新技術企業認定管理辦法) promulgated on 14 April 2008 jointly by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Finance of the PRC (中華人民共和國財政部) and the SAT and took effect on 1 January 2008, sets out the requirements and procedures to determine the advanced technology enterprises. In order to be recognised as an advanced technology enterprise, an enterprise must satisfy the requirements including but not limited to (i) having been registered within China and possesses independent intellectual property rights of the core technologies of its major products (services) by way of independent research and development, transfer, donation or acquisition in the past three years or through exclusive licensing for a minimum period of five years; (ii) the products (services) of the enterprise falling within the scope as prescribed in the High and New Technology Sector with Key State Support (國家重點支持的高新技術領域); (iii) having the scientific and technological personnel with the level of tertiary education or above in its employment, that account for at least 30.0% of the total number of employees in the year, and the number of personnel engaged in research and development constituting at least 10.0% of the total number of employees in the year; and (iv) having been engaged in continuous research and development activities for purposes of making pioneering discoveries in science or technology (excluding humanities and social sciences), making creative use of new scientific and technological knowledge, or substantially improving technologies or products (services). The proportion of its total

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research and development expenditure and its total sales revenue in the latest three accounting years shall also meet the stipulated requirements, such as having revenue from high and new technology products (services) that accounts for at least 60.0% of the total revenue of the enterprise in the year. The enterprise's level of organisation and management of research and development, capacity of transformation of scientific and technological achievements, amount of independent intellectual property rights, growth in sales and total assets as well as other indicators shall conform with the requirements of the Guidelines on the Administration of Determination of Advanced Technology Enterprises (高新技術企業認定管理工作指引), which was promulgated jointly by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Finance of the PRC (中華人民共和國財政部) and the SAT and effective on 8 July 2008 and makes detailed rules on the issues concerning the determination of advanced technology enterprises. Qualified enterprises are issued with the Advanced Technology Enterprise Certificate with a validity period of three years. Where there are major changes in the business operations, production and technical activity (such as merger, restructuring, change in business activity, etc.) of a advanced technology enterprise, the enterprise shall report such changes to the relevant administrative authority within 15 days.

### PRC LAWS ON TAX REGULATIONS

The PRC taxes that are levied on our subsidiary in the PRC mainly include EIT, VAT and business tax. Under PRC law, our PRC subsidiary is also required to withhold taxes on dividends payable to us.

#### PRC EIT Tax

Prior to 1 January 2008, the foreign-invested enterprises shall pay EIT pursuant to the Foreign-Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) promulgated by the National People's Congress Standing Committee in 1991 ("**Prior EIT Law**") and related implementation regulations. Pursuant to the Prior EIT Law, except for the preferential tax rates, a foreign-invested enterprise was subject to EIT at a statutory rate of 33.0%. In addition, certain foreign-invested enterprises were exempted from EIT for two years starting from the first profit-making year and followed by a fifty percent reduction of the EIT in the next three consecutive years.

On 16 March 2007, the National People's Congress passed the EIT Law which became effective 1 January 2008. The EIT Law adopted a uniform tax rate of 25.0% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, according to the Notice to the EIT Law, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% before the effectiveness of the EIT Law may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the EIT Law. Enterprises that were granted preferential EIT treatments before the effectiveness of the EIT Law may continue to enjoy the preferential EIT treatments until their expiration.

Under the EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to the EIT Law and its implementation rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25.0% EIT rate for



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## PRC REGULATORY FRAMEWORK

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their global income. According to the implementation rules of the EIT Law, “de facto management body” refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. In our circumstance, our substantial management is currently based in China and is expected to remain in China in the future. It is not clear whether we would be deemed as “resident enterprises” or not. In addition, although the EIT Law provides that dividend income between “qualified resident enterprises” is exempted income, and the implementation rules refer to “qualified resident enterprises” as enterprises with “direct equity interests”, it is not clear whether dividends we receive from our subsidiary are eligible for such exemption if we are deemed to be a PRC “resident enterprise”. If we are considered a PRC “resident enterprise” and thus required to withhold income tax for any dividends we pay to our non-PRC resident enterprise investors, the amount of dividends we can pay to our Shareholders could be materially reduced. In addition, any gain realised on the transfer of ordinary shares by our non-PRC resident investors is also subject to 10.0% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose “de facto management bodies” are not within China but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income source within the PRC. The implementation rules of the EIT Law provide that after 1 January 2008, an income tax rate of 10.0% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected to the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC Shareholders reside.

In spite of the uniform tax rate adopted under the EIT Law, according to Article 35 of the PRC Tax Administrative Law (中華人民共和國稅收徵收管理法), and Articles 3 and 4 of the Measures on Authorised Methods of EIT Collection (Trial) (企業所得稅核定徵收辦法(試行)) (hereinafter referred as “**Authorised Methods Measures**”), the local tax authorities shall have the right to adopt the authorised methods to charge EIT in the event that any of the following six circumstances arises:

1. such taxpayer is not required to maintain any accounting books under applicable laws and regulations;
2. such taxpayer is required to maintain accounting books under applicable laws and regulations but he failed to do so;
3. such taxpayer destroyed its accounting books or refused to provide information for tax computation;
4. the accounting books of such taxpayer is not in proper order or its available accounting information is not sufficient for review;
5. such taxpayer failed to submit any tax return to the tax authority on time or upon repeated requests; or
6. the amount of taxable income submitted by such taxpayer was relatively low without justifiable reasons.

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## PRC REGULATORY FRAMEWORK

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Pursuant to Article 6 of Authorised Methods Measures, with regard to the taxpayers using the method featuring authorised taxable income ratio-based collection, the following formula shall be used to calculate their income tax payable: (i) Income tax payables equals to taxable income times applicable tax rate; or (ii) taxable income equals to total income times taxable income ratio.

### PRC VAT

Pursuant to the Interim Regulation on the Value Added Tax of the PRC (中華人民共和國增值稅暫行條例) promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, and its implementation rules, any entity or individual engaged in the sales of goods, the provision of processing, repairing and replacement services or the importation of goods in China is generally required to pay VAT on the added value derived during the process of manufacture, sale or service provided. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17.0%.

### Business Tax

Pursuant to the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例) issued by the State Council on 13 December 1993 and amended on 10 November 2008 with effect on 1 January 2009, all units and individuals engaged in the provision of services as prescribed in these regulations and the transfer of intangible assets or the sale of immovable properties within the territory of the PRC shall pay the business tax in accordance with these Regulations. Tax payers who engage in construction and transfer of intangible assets are subject to the tax rate of 3.0% and 5.0% respectively.

## REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

### Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules of the PRC (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 and amended on 1 August 2008 and various regulations issued by the SAFE and other PRC regulatory bodies, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for the conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

### Dividend Distribution

The principal regulations governing distribution of dividends of foreign holding companies include the Company Law of the PRC (中華人民共和國公司法) promulgated by the Standing Committee of the National People's Congress in 1993 and amended in 1999, 2004 and 2005, the Foreign Investment Enterprise Law of the PRC (中華人民共和國外資企業法) promulgated by the National People's Congress Standing Committee in 1986 and amended in 2000, and the Administrative Rules under the Foreign Investment Enterprise Law (外資企業法實施細則) promulgated by the State Council in 1990 and amended in 2001.

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## PRC REGULATORY FRAMEWORK

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Under these laws and regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, wholly-foreign-owned enterprises in China, like our PRC subsidiary, are required to allocate at least 10.0% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50.0% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

### **Circular 75**

On 21 October 2005, the SAFE issued Circular 75, which became effective as of 1 November 2005. According to Circular 75, (a) a PRC citizen must register with the local SAFE branch before he or she establishes or controls a SPV for the purpose of conducting overseas equity financing; (b) when a PRC citizen contributes assets or equity interests to an overseas SPV, or engages in overseas financing after contributing assets or equity interests in a domestic enterprise to an overseas SPV, such PRC citizen must register his or her interest in the overseas SPV or any change to his or her interest in the overseas SPV with the local SAFE branch; and (c) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the PRC citizen must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. Moreover, Circular 75 applies retroactively.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular 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, and may also subject relevant PRC residents to penalties under the PRC foreign exchange administration regulations.

Mr. Jiang and Mr. Li have completed the initial foreign exchange registration for their overseas investment and the registration for the change of their beneficial interest in their overseas investments.

### **M&A Regulations and Overseas Listings**

On 8 August 2006, six PRC regulatory bodies, including the MOFCOM, the State-owned Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE, jointly issued the M&A Regulations, which became effective on 8 September 2006 and were amended on 22 June 2009. The M&A Regulations, among other things, include provisions that purport to require a SPV formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC domestic companies or individuals to obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange.

Commerce & Finance, confirmed their opinion that the overseas listing of our Company does not need any approval of the PRC governmental authorities, including the provincial governmental authorities, the MOFCOM and the CSRC, as the merger of Hebei Deer by Partnerfield as a SPV was completed before 8 September 2006, when the M&A Regulations became effective and hence the M&A Regulations are not applicable to such merger.

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## PRC REGULATORY FRAMEWORK

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### OTHER RELEVANT LAWS AND REGULATIONS

#### Regulations on Patents

Under the revised Patent Law of the PRC (中華人民共和國專利法) promulgated by the Standing Committee of the National People's Congress on 27 December 2008 and effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights, are held liable against the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the "first to file" principle, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for the sake of an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system.

Although patent rights are national rights, the Patent Cooperation Treaty ("PCT") to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

#### Labour Protection

The PRC Labour Contract Law (中華人民共和國勞動合同法) was promulgated by the Standing Committee of the National People's Congress on 29 June 2007 and became effective on 1 January 2008 and the Implementing Regulations of the PRC Labour Contract Law (中華人民共和國勞動合同法實施條例) was promulgated by the State Council and became effective on 3 September 2008. This law and its implementation regulations govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and the amendment to, labour contracts. To establish an employment relationship, a written labour contract shall be signed. In the event that no written labour contract was signed at the time of establishment of an employment relationship, a written labour contract shall be signed within one month after the date on which the employer first engages the employee.

Under applicable PRC laws, rules and regulations, including the Social Insurance Law (中華人民共和國社會保險法), promulgated by the Standing Committee of the National People's Congress on 28 October 2010 which has taken effective on 1 July 2011, the Interim Regulations on the Collection and Payment of Social Security Funds (社會保險費徵繳暫行條例) promulgated by the State Council and became effective on 22 January 1999, Interim Measures concerning the Maternity Insurance (企業職工生育保險試行辦法) promulgated by the Ministry of Labour on 14 December 1994 which became effective on 1 January 1995, the Regulations on Occupational Injury Insurance (工傷保險條例) promulgated by the State Council on 27 April 2003 which became effective on 1 January 2004 and amended on 20 December 2010, and the Regulations on the Administration of

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## PRC REGULATORY FRAMEWORK

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Housing Accumulation Funds (住房公積金管理條例) promulgated by the State Council and become effective on 3 April 1999 which was amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and housing accumulation funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### BUSINESS DEVELOPMENT

Since 2001, our Group has been principally engaged in the provision of the deployment services of optical fibers in the PRC. Below set forth the important milestones of our Group's history to date:

- In 2004, our Group secured the first exclusive right in using public sewage systems in Baoding.
- In 2006, our Group signed its first deployment contract which explicitly involved micro-ducts and mini-cables technology in Xingtai.
- In 2007, our Group registered ten patents in relation to the deployment of optical fibers utilising micro-ducts and mini-cables, including but not limited to mini-cables reserve box for reconstructed telecommunication pipeline, devices for installation telecommunication optical cables in the rain and sewage pipeline and a cable-operating pushing robot based on water deposition technique.
- In 2008, our Group registered six patents in relation to the deployment of optical fibers utilising micro-ducts and mini-cables, including but not limited to a type of telecommunication micro-ducts for non-excavation micro controlling pipe jacking deployment technique and a type of cable troughing deployment technique for installation of micro telecommunication pipeline in city traffic road.
- In March 2011, our Group completed the acquisition of Shijiazhuang Qiushi to extend our business to cover low-voltage equipment integration services.

### CORPORATE DEVELOPMENT

#### Introduction

Our Group was originated from the restructuring of Hebei Changtong and Beijing U-Ton, our operating subsidiaries established in the PRC in June 2000 and January 2007, respectively. Immediately before the Reorganisation, Hebei Changtong and Beijing U-Ton were solely owned by Mr. Jiang, our Controlling Shareholder, and his spouse, Ms. Guo.

In the process of the Reorganisation, Shijiazhuang Qiushi, which was then wholly owned by Mr. Li, our Substantial Shareholder, and his spouse, Ms. Ren, was acquired by our Group and became a member of our Group in March 2011.

A brief description of the corporate history of our operating subsidiaries is set out below.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Hebei Changtong

Hebei Changtong, one of the operating subsidiaries of our Group, was established on 20 June 2000 as a limited liability company in the PRC with a registered capital of RMB500,000 and was then owned as to 66.00%, 20.00%, 10.00% and 4.00% by Mr. Jiang, Mr. Zhang Wenbo (張文寶) (an Independent Third Party), Mr. Ma Jieping (馬傑平) (our employee until October 2000), Mr. Sun Chengbin (孫承斌) (our employee until December 2008), respectively.

Hebei Changtong commenced its business in 2001 and was then principally engaged in the business of deployment services of optical fibers by using traditional techniques in the PRC and commenced the use of micro-ducts and mini-cables technology in its business in 2006.

In July 2000, because of the increase of the registered capital to RMB2.68 million by other shareholders (who are Independent Third Parties, employees and ex-employees of Hebei Changtong), Mr. Jiang's equity interests in Hebei Chongtong was diluted from 66.00% to approximately 33.36%. However, he remained the single largest shareholder. In March 2001, he increased his equity interests to approximately 67.30% by way of acquisition of 30.00% equity interests from another shareholder (who is an Independent Third Party) and further capital contribution for the sum of RMB320,000 in cash. The consideration for the acquisition of the said 30.00% equity interests amounted to RMB804,500 and was determined by reference to respective capital contribution to the then registered capital.

Thereafter, there had been various increases and transfers of the registered capital of Hebei Changtong during the period from January 2001 to May 2009 affecting the shareholding of Mr. Jiang and his associates, the details of which are set out below:

Step	Date	Relevant event	Consideration	Shareholding in Hebei Changtong (%) (Note 1)
A. (Note 2)	1 March 2001	Increase of registered capital to RMB3.00 million	RMB320,000 contributed by Mr. Jiang in cash	(1) Mr. Jiang — approximately 67.30%;
		Transfer of approximately 30.00% equity interests (out of total registered capital of RMB2.68 million before the increase of registered capital) by an Independent Third Party to Mr. Jiang	RMB804,500 from Mr. Jiang to an Independent Third Party	(2) four shareholders (who are employees and ex-employees of Hebei Changtong) — approximately 20.86%; and (3) three shareholders (who are Independent Third Parties) — approximately 11.84%

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Step	Date	Relevant event	Consideration	Shareholding in Hebei Changtong (%) (Note 1)
B. (Note 2)	1 July 2001	Transfer of approximately 1.79% equity interests (out of the total registered capital of RMB3.00 million before the increase of registered capital) by an Independent Third Party to Mr. Jiang	RMB53,800 from Mr. Jiang to an Independent Third Party	(1) Mr. Jiang — approximately 67.20%; (2) four shareholders (who are employees and ex-employees of Hebei Changtong and an associate of an employee) — approximately 23.50% (after various transfers of equity interests and subscription of registered capital); and
	15 August 2001	Increase of registered capital to RMB8.00 million	<ol style="list-style-type: none"> <li>1. RMB3,305,000 contributed by Mr. Jiang in cash and by way of contribution of machineries and equipment;</li> <li>2. RMB1,237,000 contributed by four shareholders (who are employees and ex-employees and an associate of an employee of Hebei Changtong) in cash; and</li> <li>3. RMB458,000 contributed by two shareholders (who are Independent Third Parties) in cash</li> </ol>	(3) two shareholders (who are Independent Third Parties) — approximately 9.30% (after various transfers of equity interests and subscription of registered capital)



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Step	Date	Relevant event	Consideration	Shareholding in Hebei Changtong (%) (Note 1)
C. (Note 2)	30 November 2002	Transfer of approximately 1.10% equity interests by Mr. Jiang to shareholders (who are Independent Third Parties and employees and ex-employees of Hebei Changtong)	RMB89,800 by shareholders (who are Independent Third Parties and employees and ex-employees of Hebei Changtong) to Mr. Jiang	(1) Mr. Jiang — approximately 66.10%; (2) four shareholders (who are employees and ex-employees of Hebei Changtong and an associate of an employee) — approximately 25.01% (after various transfers of equity interests); and (3) two shareholders (who are Independent Third Parties) — approximately 8.89% (after various transfers of equity interests)
D. (Note 2)	8 March 2007	Transfer of approximately 5.86% equity interests by an Independent Third Party to Mr. Jiang	RMB468,800 from Mr. Jiang to an Independent Third Party	(1) Mr. Jiang — approximately 71.96%; and (2) three shareholders (who are employees and ex-employees of Hebei Changtong) — approximately 28.04% (after various transfers of equity interests)

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Step	Date	Relevant event	Consideration	Shareholding in Hebei Changtong (%) (Note 1)
E.	19 March 2007	Increase of registered capital to RMB10.00 million	<ol style="list-style-type: none"> <li>1. RMB825,000 contributed by Mr. Jiang in cash;</li> <li>2. RMB48,300 contributed by Ms. Jiang Ling (a sister of Mr. Jiang) in cash; and</li> <li>3. RMB1,126,700 contributed by shareholders (who are employees and ex-employees and an associate of an ex-employee of Hebei Changtong) in cash</li> </ol>	<ol style="list-style-type: none"> <li>(1) Mr. Jiang — approximately 60.82%;</li> <li>(2) Ms. Jiang Ling — approximately 0.48%; and</li> <li>(3) thirty-nine shareholders (who are employees and ex-employees and an associate of an ex-employee of Hebei Changtong) — approximately 38.70% (Note 3)</li> </ol>
		Transfer of approximately 6.25% equity interests (out of the total registered capital of RMB8.00 million before the increase of registered capital) by Mr. Jiang to a shareholder (who is an ex-employee of Hebei Changtong)	RMB500,000 by a shareholder (who is an ex-employee of Hebei Changtong) to Mr. Jiang	
F.	1 February 2009	Transfers of a total sum of approximately 17.04% equity interests by three shareholders (who are employees and ex-employees of Hebei Changtong) to Mr. Jiang	Total consideration of the transfers — RMB1,703,500	<ol style="list-style-type: none"> <li>(1) Mr. Jiang — approximately 77.85%;</li> <li>(2) Ms. Jiang Ling — approximately 0.48%; and</li> <li>(3) thirty-six shareholders (who are employees and ex-employees and an associate of an ex-employee of Hebei Changtong) — approximately 21.66%</li> </ol>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Step	Date	Relevant event	Consideration	Shareholding in Hebei Changtong (%) (Note 1)
G.	1 May 2009	Transfer of approximately 0.48% equity interests by Ms. Jiang Ling (a sister of Mr. Jiang) and a total of approximately 6.75% equity interests held by twenty-nine shareholders (who are employees and ex-employees and an associate of an ex-employee of Hebei Changtong) to a shareholder (who is an employee of Hebei Changtong)	RMB48,300 and RMB675,000 from a shareholder (who is an employee of Hebei Changtong) to Ms. Jiang Ling and twenty-nine shareholders (who are employees and ex-employees and an associate of an ex-employee of Hebei Changtong), respectively	(1) Mr. Jiang — approximately 77.85%; and (2) seven shareholders (who are employees and ex-employees of Hebei Changtong) — approximately 22.15% (after various transfers of equity interests)

*Notes:*

1. The consideration was arrived at after arm's length negotiations between the parties and by reference to the respective capital contribution to the then registered capital.
2. Between Step A and Step D, there were various equity transfers in Hebei Changtong in which Mr. Jiang and his associates were not involved.
3. The change of shareholding in relation to thirty-nine shareholders (who are employees and ex-employees and an associate of an ex-employee of Hebei Changtong) involved: (1) capital contribution for the total sum of RMB320,120 by the existing three shareholders (who are employees and ex-employees of Hebei Changtong), (2) capital contribution for the total sum of RMB806,580 by thirty-five new shareholders (who were employees and ex-employees and an associate of an ex-employee of Hebei Changtong), and (3) transfer of approximately 6.25% equity interests (out of the total registered capital of RMB8.00 million before the increase of registered capital) by Mr. Jiang to a new shareholder who is an ex-employee of Hebei Changtong.

Mr. Jiang owned approximately 77.85% equity interests in Hebei Changtong after the change of the shareholdings in May 2009. On 21 December 2010, Mr. Jiang acquired the remaining 22.15% equity interests in Hebei Changtong from all other shareholders (who are employees and ex-employees of Hebei Changtong) at a total consideration of RMB2,214,700, which was arrived at after arm's length negotiations between the parties and by reference to the respective capital contribution to the then registered capital, and became the sole shareholder of Hebei Changtong until immediately before the Reorganisation.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Beijing U-Ton

Beijing U-Ton, one of the operating subsidiaries of our Group, was established on 22 January 2007 as a limited liability company in the PRC with a registered capital of RMB6.00 million and was then owned as to 70.0% and 30.0% by Mr. Liang Shuangli (梁雙利) (an Independent Third Party) and Ms. Zhao Fengmei (趙鳳梅) (an Independent Third Party), respectively.

Beijing U-Ton commenced its business in March 2007 upon acquisition of the equity interests by Ms. Guo and was then principally engaged in the business of researching and developing new technology, registering patent rights and procuring materials for original equipment manufacturer to manufacture products that are required for Hebei Changtong's practice use.

On 14 March 2007, due to an increase of the registered capital of Beijing U-Ton to RMB10 million which was subscribed by Ms. Guo and an acquisition of the equity interests (consisting of paid up capital contribution of RMB450,000 and unpaid up capital contribution of RMB1,350,000) by Ms. Guo from Ms. Zhao Fengmei for a consideration of RMB450,000 which was determined after arm's length negotiation and by reference to the value of the paid up capital contribution to the then registered capital, the equity interests of Beijing U-Ton were owned as to 58% and 42% by Ms. Guo and Mr. Liang Shuangli, respectively. On 1 June 2008, Ms. Guo further acquired the equity interests consisting of unpaid up capital contribution of RMB3,150,000 from Mr. Liang Shuangli at nil consideration, which was determined after arm's length negotiation and by reference to the fact that the subject capital contribution was unpaid, and after such change Ms. Guo owned approximately 89.5% equity interests in Beijing U-Ton. On 16 November 2009, Mr. Jiang acquired (i) the remaining 10.5% equity interests consisting of paid up capital contribution of RMB1,050,000 from Mr. Liang Shuangli (the then shareholder of such remaining 10.5% equity interests) for a consideration of RMB1,050,000 which was determined after arm's length negotiation and by reference to the value of the paid up capital contribution to the then registered capital involved and (ii) 48.5% equity interests (the capital contribution for the sum of RMB4,850,000 in relation to which was unpaid up) from Ms. Guo at nil consideration, which was determined after arm's length negotiation and by reference to the fact that the subject capital contribution was unpaid, respectively. As advised by Commerce & Finance, in respect of the equity interests which were transferred from Mr. Liang Shuangli to Ms. Guo on 1 June 2008 and from Ms. Guo to Mr. Jiang on 16 November 2009, the relevant capital contribution was unpaid at the time of the transfers and subsequently made by Mr. Jiang to Beijing U-Ton pursuant to the capital verification reports and the aforesaid equity transfers were duly registered with the SAIC, hence the equity transfers were legal and enforceable. Since then, Beijing U-Ton was owned as to 59.0% and 41.0% by Mr. Jiang and Ms. Guo, respectively, until immediately before the Reorganisation.

### Shijiazhuang Qiushi

Shijiazhuang Qiushi, one of the operating subsidiaries of our Group, was established on 25 March 1999 as a limited liability company in the PRC with a registered capital of RMB500,000 and was then owned as to 60.0% and 40.0% by Mr. Li and Ms. Fan Yunmeng (樊芸蒙) (an Independent Third Party), respectively.

Shijiazhuang Qiushi commenced business in 1999 and was then principally engaged in the business of sale of equipment for telecommunication. In 2007, Shijiazhuang Qiushi engaged in the business of provision of low-voltage equipment integration services.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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In July 2003, because of the increase of the registered capital to RMB10.18 million which was contributed by Mr. Li and Ms. Ren, Shijiazhuang Qiushi was owned as to approximately 71.12%, 26.92% and 1.96% by Mr. Li, Ms. Ren and Ms. Fan Yunmeng, respectively. Mr. Li acquired the remaining 1.96% equity interests in Shijiazhuang Qiushi from Ms. Fan Yunmeng at a consideration of RMB200,000 on 28 February 2010. The consideration was determined after arm's length negotiation and by reference to the respective capital contribution to the then registered capital. Since then, Shijiazhuang Qiushi was owned as to approximately 73.08% and 26.92% by Mr. Li and Ms. Ren, respectively, until immediately before the Reorganisation.

Shijiazhuang Qiushi is principally engaged in the business of providing telecommunication equipments to telecommunication operators and installation service for low-voltage equipment and accessories. With the reasons set out below, our Directors believe that the acquisition of Shijiazhuang Qiushi will enhance our revenue stream instead of constituting a change in the business focus of our Group.

The major reasons for the acquisition of Shijiazhuang Qiushi under the Reorganisation as discussed below were as follows:

- Create business synergies — Through the provision of a comprehensive solution of connecting the telecommunication network by using our deployment services of optical fibers to the intelligence control system of end users by using the low-voltage equipment integration services of Shijiazhuang Qiushi, our Group intends to promote our distinctive comprehensive services to clients including real estate companies so as to broaden our revenue stream and capture the synergy effect of both businesses;
- Diversify our clients base — By creating opportunities to accessing new client base, our clientele portfolio can be enriched and we are diversifying our financial risks from relying on our existing major clients;
- Consolidate proper qualifications and experience of staffs — Shijiazhuang Qiushi has engaged in the provision of low-voltage equipment integration services for years under the leadership of Mr. Li, who is our executive Director, and possesses sufficient qualifications ready for our business to cover such services. Through equipping with the existing qualifications held by and the experienced staffs led by Mr. Li of Shijiazhuang Qiushi, our Directors believe that we can expand the low-voltage equipment integration services at faster pace resulting in increasing revenue. The experience of Mr. Li regarding the low-voltage equipment integration services has been set out in the section headed “Directors, senior management and staff” in this prospectus.
- Capture potential market growth — As noted from the industry information compiled by CCID Consulting and set out in the section headed “Industry overview” in this prospectus, the market for the low-voltage equipment integration is expected to grow in 2012 with the rapid development in the construction, transportation and financial industries in China. In view of the market potential of the low-voltage equipment integration services, the acquisition of Shijiazhuang Qiushi allows us to seize the business opportunities when the market is still at the growing stage. For further details of the relevant demands, please refer to the section headed “Industry overview - Low-voltage equipment integration services” in this prospectus.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### REORGANISATION

In order to streamline our corporate structure and business operations with a single vertical holding structure over our operating subsidiaries, we restructured our corporate structure such that Beijing U-Ton, Hebei Changtong and Shijiazhuang Qiushi were acquired by Hebei Deer. The following presents a general description of the corporate history of our Company and our investment holding vehicles immediately before the Reorganisation:

#### **Our Company**

Our Company was incorporated in the Cayman Islands on 7 March 2011 and is the holding company of our subsidiaries. As at the Latest Practicable Date, all allotted and issued shares of our Company were held by Bright Warm and Ordillia as to 80.00% and 20.00%, respectively.

As a result of our Reorganisation, our Company, through Partnerfield, indirectly holds the entire equity interests in Hebei Deer, which in turns, holds the entire equity interests in Hebei Changtong, Beijing U-Ton and Shijiazhuang Qiushi. Please refer to the section headed “History, development and reorganisation — Reorganisation” in this prospectus and the section headed “Further information about our Company — Group reorganisation” in Appendix IV to this prospectus for further details about the Reorganisation.

#### **Partnerfield**

Partnerfield was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each on 7 July 2005 and principally engaged in investment holding. The first shareholders include Believe Power (which was then wholly owned by Mr. Li), Boom World (which was then wholly owned by Mr. Du), Plansmart (which was then wholly owned by Mr. Zhang Gaobo (an Independent Third Party)), and Ms. Soo Fong To (an Independent Third Party), who owned as to 60%, 15%, 15% and 10% of the then equity interests in Partnerfield, respectively.

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Mr. Jiang's investment in Believe Power was summarised as follows:

Date	Relevant event	Shareholding in Believe Power (%) (Note 1)
1 October 2005	Subscription of shares by Mr. Jiang, Mr. Yan, Mr. Li and an Independent Third Party as to 3,800, 2,500, 1,700 and 1,000 shares, respectively (Mr. Li was the sole shareholder of Believe Power holding 1,000 shares before the subscription of shares)	(1) Mr. Jiang — 3,800 shares (38%); (2) Mr. Li — 2,700 shares (27%); (3) Mr. Yan — 2,500 shares (25%); and (4) An Independent Third Party — 1,000 shares (10%)
21 and 30 December 2005	Transfer of 463, 1,197 and 840 shares by Mr. Yan to Mr. Jiang, Mr. Li and an Independent Third Party, respectively	(1) Mr. Jiang — 4,263 shares (42.63%); (2) Mr. Li — 3,897 shares (38.97%); and (3) An Independent Third Party — 1,840 shares (18.4%)
18 December 2009	Transfer of 4,263, 3,897 and 1,840 shares by Mr. Jiang, Mr. Li and an Independent Third Party to Mr. Du (Note 2)	Mr. Du — 10,000 shares (100%)
19 November 2010	Transfer of 4,263 and 3,897 shares by Mr. Du to Mr. Jiang and Mr. Li, respectively (Note 3)	(1) Mr. Jiang — 4,263 shares (42.63%); (2) Mr. Li — 3,897 shares (38.97%); and (3) Mr. Du — 1,840 shares (18.4%)

*Notes:*

1. Unless otherwise specified, the consideration was arrived at after arm's length negotiations between the parties and by reference to the par value of the shares of Believe Power at US\$1 per share.
2. On 18 December 2009, the then shareholder, which is an Independent Third Party holding 18.4% equity interests in Believe Power, decided to terminate his investment in Partnerfield and Hebei Deer (the business of which was substantially ceased) and disposed his entire equity interests in Believe Power to Mr. Du at par value. As confirmed by Mr. Jiang, Mr. Li and Mr. Du, due to miscommunication between Believe Power's company secretarial service provider and the then shareholders of Believe Power, the company secretarial service provider prepared the share transfer instruments under which the equity interests in Believe Power held by Mr. Jiang and Mr. Li were also transferred to Mr. Du. The executed share transfer instruments were delivered to the company secretarial service provider and the transfers were recorded on the register of members as a result of miscommunication. Mr. Jiang, Mr. Li and Mr. Du were not conversant with English and were not aware of the miscommunication. Mr. Du had not paid any consideration to Mr. Jiang or Mr. Li in this regard.
3. In the course of preparation of the Reorganisation in late 2010, the shareholders discovered the error and Mr. Du executed the share transfer instruments to transfer the shares in Believe Power back to Mr. Jiang and Mr. Li, respectively.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Since October 2005, Believe Power owned 60% equity interests in Partnerfield until the conversion of the 2005 Convertible Bonds by Ordillia in January 2007, after which the equity interests held by Believe Power in Partnerfield were diluted to approximately 49.72% until immediately prior to the Reorganisation.

Partnerfield is an investment holding company. Since the incorporation of Partnerfield, Hebei Deer has been its only direct subsidiary. Upon the disposal of the 80.00% equity interests in Shaanxi Wanghe by Hebei Deer in November 2009, Hebei Deer was the only subsidiary of Partnerfield until the acquisition of Beijing U-Ton by Hebei Deer on 28 December 2010.

Since the incorporation of Partnerfield and before the Reorganisation on 28 December 2010, there had been various changes of shareholding of Partnerfield and its corporate shareholders. Several investors (including Mr. Jiang, Mr. Li, Mr. Du and Mr. Yan (among others)) had invested in Partnerfield in order to finance the operations of the business of Hebei Deer. However, Hebei Deer has no longer carried on any substantive business since 2007 because our Directors believed it would not be profitable. Since then, Partnerfield and Hebei Deer became inactive until acquisition of 95.00% interest in Partnerfield by Mr. Jiang and acquisition of the entire interest in Beijing U-Ton by Hebei Deer at the same time as part of the Reorganisation. The investors of Partnerfield (other than Mr. Jiang, Mr. Li and Mr. Du) have not been involved in the operations of our operating subsidiaries, namely Beijing U-Ton, Hebei Changtong and Shijiazhuang Qiushi.

### **Financing for the former business of Hebei Deer**

To finance the capital contribution for the sum of US\$2,880,000 into Hebei Deer in the acquisition of 90% equity interests in Hebei Deer and the former business of Hebei Deer, Partnerfield obtained financing through the following shareholders' loans, and issue of the 2005 Convertible Bonds (as defined below) and the 2006 Convertible Loans (as defined below), the particulars of which are set out below. There is only one class of shares in the share capital of Partnerfield (i.e. ordinary shares) despite the issue of the 2005 Convertible Bonds (and the subsequent conversion in January 2007) and 2006 Convertible Loans.

#### ***Shareholders' loans***

In 2005, Partnerfield obtained the following shareholders' loans and our liabilities in relation to the shareholders' loans were terminated as follows:

<b>Date of provision of loan</b>	<b>Lender</b>	<b>Amount of loan</b>	<b>Fixed date of repayment</b>	<b>Interest</b>	<b>Termination</b>
7 December 2005	Believe Power	HK\$7.50 million	Nil	Nil	Pursuant to the Believe Power Deed of Confirmation, the parties acknowledged (among others) that the shareholders' loan was irrevocably waived by the lender as at 28 December 2010.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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Date of provision of loan	Lender	Amount of loan	Fixed date of repayment	Interest	Termination
26 November 2005	Boom World	HK\$1.25 million	Nil	Nil	Pursuant to the Boom World Deed of Confirmation, the parties acknowledged (among others) that the shareholders' loan was irrevocably waived by the lender as at 28 December 2010.
6 December 2005	Boom World	HK\$2.50 million	Nil	Nil	Pursuant to the Boom World Deed of Confirmation, the parties acknowledged (among others) that the shareholders' loan was irrevocably waived by the lender as at 28 December 2010.
26 November 2005	Plansmart	HK\$3.75 million	Nil	Nil	Pursuant to the Plansmart Deed of Confirmation, the parties acknowledged (among others) that the shareholders' loan was irrevocably waived by the lender as at 28 December 2010.

The Accountants' Report set out in Appendix I to this prospectus only includes the financial information of Partnerfield after 28 December 2010, the date Partnerfield being acquired by Beijing U-Ton from accounting perspective (as set out in the section headed "Financial information" in this prospectus). Accordingly, the shareholders' loans and the waiver granted by the lenders were not explicitly reflected in the Accountants' Report set out in Appendix I to this prospectus.

Partnerfield had also raised finance by way of issue of the 2005 Convertible Bonds and the 2006 Convertible Loans. All of them have been terminated and/or settled and their details are set out below.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *2005 Convertible Bonds*

Pursuant to a subscription agreement dated 25 November 2005, Partnerfield issued one convertible bond with the principal amount of HK\$3.75 million to each of Boom World and Plansmart (collectively, the “**2005 Convertible Bonds**”). Principal terms of the 2005 Convertible Bonds include:

*Principal amount:* HK\$3.75 million each

*Interest:* Fixed amount of interest of HK\$0.50 million

*Maturity:* The first anniversary of the issuance date

*Security:* Nil.

*Conversion price.* The conversion price is approximately HK\$3,626.7 per share (i.e. 1,034 shares shall be allotted upon exercise of the conversion rights under each of the 2005 Convertible Bonds).

On 24 November 2006, the parties agreed to change the maturity date of the 2005 Convertible Bonds to 28 February 2007. On the same day, each of Boom World and Plansmart assigned the 2005 Convertible Bonds held by each of them to Ordillia at a consideration of HK\$3.75 million for each of the 2005 Convertible Bonds.

On 23 January 2007, Ordillia exercised the conversion rights under the 2005 Convertible Bonds and acquired 2,068 shares in Partnerfield.

Upon the conversion of the 2005 Convertible Bonds set out above, all rights of the bondholder attached to the 2005 Convertible Bonds were extinguished.

Partnerfield used the shareholders’ loans (for the total sum of HK\$15 million) and the 2005 Convertible Bonds (for the total sum of HK\$7.5 million) for the capital contribution for the sum of US\$2,880,000 into Hebei Deer in the acquisition of 90% equity interests in Hebei Deer. There was no specific plan to apply for listing at the time of issuance of the 2005 Convertible Bonds.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *2006 Convertible Loans*

In December 2006 and January 2007, Partnerfield (as the borrower) entered into the following convertible loan agreements (collectively, the “**2006 Convertible Loans**”):

Date of agreement	Lender	Principal amount of loan	Conversion ratio	Repayment and termination
20 December 2006	Guofu (Hong Kong) Holdings Limited <i>(Note 1)</i>	HK\$5.00 million	4.00% of the total equity of the listing vehicle (immediately before listing) holding the entire issued capital of Partnerfield	<p>Partnerfield repaid HK\$0.5 million in March 2011. Pursuant to the Guofu Deed of Termination (as supplemented and amended), the parties agreed and acknowledged (among others) that:</p> <ul style="list-style-type: none"> <li>(i) the convertible loan agreement and all liabilities, rights and claims thereunder should be terminated;</li> <li>(ii) Partnerfield settled two sums of approximately HK\$2.26 million and HK\$3.16 million to the lender in July 2011 and December 2011, respectively;</li> <li>(iii) other than the payment obligation set out in (ii) above, all other obligations of Partnerfield under the convertible loan were discharged. Accordingly the interest and premium up to the date of the Guofu Deed of Termination of approximately HK\$5.1 million in respect of the convertible loan was credited as income.</li> </ul>
20 December 2006	Hoifu Investment Limited <i>(Note 2)</i>	HK\$5.00 million	4.00% of the total equity of the listing vehicle (immediately before listing) holding the entire issued capital of Partnerfield	<p>The loan amount had not been drawn down.</p> <p>Pursuant to the Hoifu Deed of Termination, the parties agreed and acknowledged (among others) that the convertible loan agreement and all liabilities, rights and claims thereunder should be terminated.</p>
20 December 2006	Bridgecity Investments Limited <i>(Note 3)</i>	HK\$10.00 million	8.00% of the total equity of the listing vehicle (immediately before listing) holding the entire issued capital of Partnerfield	<p>The loan amount had not been drawn down.</p> <p>Pursuant to the Bridgecity Deed of Termination, the parties agreed and acknowledged (among others) that the convertible loan agreement and all liabilities, rights and claims thereunder should be terminated.</p>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Date of agreement	Lender	Principal amount of loan	Conversion ratio	Repayment and termination
20 December 2006	Golden Acropolis Management Limited <i>(Note 4)</i>	HK\$10.00 million	8.00% of the total equity of the listing vehicle (immediately before listing) holding the entire issued capital of Partnerfield	<p>The loan amount had not been drawn down.</p> <p>Pursuant to the Golden Acropolis Deed of Termination, the parties agreed and acknowledged (among others) that the convertible loan agreement and all liabilities, rights and claims thereunder should be terminated.</p>
8 January 2007	Delong China International Limited <i>(Note 5)</i>	HK\$10.00 million	8.00% of the total equity of the listing vehicle (immediately before listing) holding the entire issued capital of Partnerfield	<p>Partnerfield repaid HK\$8.00 million in August 2007 and a sum of HK\$1.00 million in June 2011.</p> <p>Pursuant to the Delong Deed of Termination (as supplemented and amended), the parties agreed and acknowledged (among others) that:</p> <ul style="list-style-type: none"> <li>(i) the convertible loan agreement and all liabilities, rights and claims thereunder should be terminated;</li> <li>(ii) Partnerfield settled a sum of HK\$1.00 million to the lender in December 2011;</li> <li>(iii) other than the payment obligation set out in (ii) above, all other obligations of Partnerfield under the convertible loan were discharged. Accordingly the interest and premium up to the date of the Delong Deed of Termination of approximately HK\$1.25 million in respect of the convertible loan was credited as income.</li> </ul>

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Date of agreement	Lender	Principal amount of loan	Conversion ratio	Repayment and termination
8 January 2007	Dragonview Capital Inc. <i>(Note 6)</i>	HK\$10.00 million	8.00% of the total equity of the listing vehicle (immediately before listing) holding the entire issued capital of Partnerfield	<p>Partnerfield repaid HK\$8.00 million in August 2007 and a sum of HK\$1.00 million in June 2011.</p> <p>Pursuant to the Dragonview Deed of Termination (as supplemented and amended), the parties agreed and acknowledged (among others) that:</p> <ul style="list-style-type: none"> <li>(i) the convertible loan agreement and all liabilities, rights and claims thereunder should be terminated;</li> <li>(ii) Partnerfield settled a sum of HK\$1.00 million to the lender in December 2011;</li> <li>(iii) other than the payment obligation set out in (ii) above, all other obligations of Partnerfield under the convertible loan were discharged. Accordingly, the interest and premium up to the date of the Dragonview Deed of Termination of approximately HK\$1.25 million was credited as income.</li> </ul>

Other principal terms of the 2006 Convertible Loans include:

*Interest on the principal amount of the loan: 5.00% per annum and accrued on daily basis*

*Security: Nil.*

*Benchmark Profit:*

For the convertible loan agreements with Guofu (Hong Kong) Holdings Limited and Hoifu Investment Limited, Partnerfield agreed that, if the audited net profits of Partnerfield for the year of 2007 was lower than HK\$40 million, it should procure Believe Power, Boom World, Plansmart, Ordillia and the Independent Third Party who held the then 10% equity interests in Partnerfield, to indemnify the lender as follows:

Indemnification amount = shortfall between audited net profits of Partnerfield and HK\$40 million  
x 50% x 1/6

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## HISTORY, DEVELOPMENT AND REORGANISATION

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For the convertible loan agreements with Bridgecity Investments Limited and Golden Acropolis Management Limited, Partnerfield agreed that, if the audited net profits of Partnerfield for the year of 2007 was lower than HK\$40 million, it should procure Believe Power, Boom World, Plansmart, Ordillia and the Independent Third Party who held the then 10% equity interests in Partnerfield, to indemnify the lender as follows:

$$\begin{aligned} \text{Indemnification amount} &= \text{shortfall between audited net profits of Partnerfield and HK\$40} \\ &\quad \text{million} \\ &\quad \times 50\% \times 1/3 \end{aligned}$$

For the convertible loan agreements with Delong China International Limited and Dragonview Capital Inc., Believe Power and Mr. Yan agreed that, if the audited net profits of Partnerfield for the year of 2007 was lower than HK\$40 million, they should indemnify the lender as follows:

$$\begin{aligned} \text{Indemnification amount} &= \text{shortfall between audited net profits of Partnerfield and HK\$40} \\ &\quad \text{million} \\ &\quad \times 50\% \times 1/3 \end{aligned}$$

*Maturity:* Partnerfield should repay a sum equivalent to (i) 122.5% x principal amount of the loan, (ii) the aforesaid interest on the principal amount of the loan, and (iii) other liabilities under the 2006 Convertible Loans upon 18 months after the execution of the respective convertible loan agreement

Upon receipt of the financing under the 2006 Convertible Loans for the total sum of HK\$25 million in January 2007, the then investors of Partnerfield and the lenders of the 2006 Convertible Loans planned to use the sum to further invest in the then business of Hebei Deer. It was planned to expand the business such that it could be listed on the Stock Exchange by the end of 2007. Out of the expectation of the investors and the lenders of the 2006 Convertible Loans, shortly after receipt of the financing, the investors considered that the business was not matured and could not meet the listing plan due to high operation costs and that the size of the deployment projects market may be adversely affected by the speculated reorganisation of telecommunication operators in the PRC (which was then implemented in 2008) such that the number of major telecommunication operators would be reduced. The investors decided not to further invest in the then business and our Group started to repay the lenders of the 2006 Convertible Loans in August 2007 in order to minimise the losses and to terminate the 2006 Convertible Loans conclusively.

Upon the termination of the 2006 Convertible Loans set out above, all rights of the lenders pursuant to the respective convertible loan agreements were extinguished.

*Notes:*

1. Guofu (Hong Kong) Holdings Limited is a limited liability company incorporated in Hong Kong and wholly owned by an Independent Third Party.
2. Hoifu Investment Limited is a limited liability company incorporated in the BVI and wholly owned by an Independent Third Party.
3. Bridgecity Investments Limited is a limited liability company incorporated in the BVI and wholly owned by an Independent Third Party.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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4. Golden Acropolis Management Limited is a limited liability company incorporated in the BVI and wholly owned by an Independent Third Party.
5. Delong China International Limited is a limited liability company incorporated in the BVI and wholly owned by Independent Third Parties.
6. Dragonview Capital Inc. is a limited liability company incorporated in the BVI and wholly owned by Independent Third Parties.

### Hebei Deer

Hebei Deer was established in Hebei Province of the PRC as a limited liability company on 20 October 2003 with a registered capital of RMB10.00 million. Hebei Deer commenced its business in 2003 and was then principally engaged in the business of research and development of the technology for optical fibers for installation in duct. Hebei Deer was converted into a sino-foreign equity joint venture enterprise on 31 October 2005 when Partnerfield acquired 90.00% of its equity interests, and converted into a wholly foreign-owned enterprise on 25 May 2011 with a registered capital of US\$4,110,000 when Partnerfield further acquired the remaining 10.00% equity interests of Hebei Deer from Hebei Ruihui.

In April 2006, Hebei Deer acquired 80.00% equity interests in Shaanxi Wanghe from Independent Third Parties at a consideration of RMB8.00 million determined by reference to the respective capital contribution to the then registered capital. The reason for the acquisition is that Hebei Deer may cooperate with Shaanxi Wanghe to facilitate the development of its business in Xi'an where Shaanxi Wanghe has been based.

In addition, since Shaanxi Wanghe failed to secure deployment contracts from clients resulting in the accumulated loss in its financial statement prior to the disposal of the equity interests of Shaanxi Wanghe held by Hebei Deer, Mr. Jiang, Mr. Li and other investors decided to focus on their other investments and had not further provided financing to invest in Hebei Deer and Shaanxi Wanghe, so Hebei Deer and Shaanxi Wanghe continued to be at a dormant stage and have no substantive business since 2007. In November 2009, Hebei Deer disposed the 80.00% equity interests in Shaanxi Wanghe to Mr. Chen Qizheng (陳齊爭) (who was hired as the manager of Beijing U-Ton between March 2011 and April 2011 and an Independent Third Party as at the Latest Practicable Date) at a consideration of RMB290,910.58 determined by reference to the audited net asset value of Shaanxi Wanghe as at 31 August 2009. Since 2007, Hebei Deer and its then subsidiary, Shaanxi Wanghe (prior to the disposal by Hebei Deer of its equity interests in Shaanxi Wanghe in November 2009), have no substantive business until the acquisition of Beijing U-Ton on 28 December 2010.

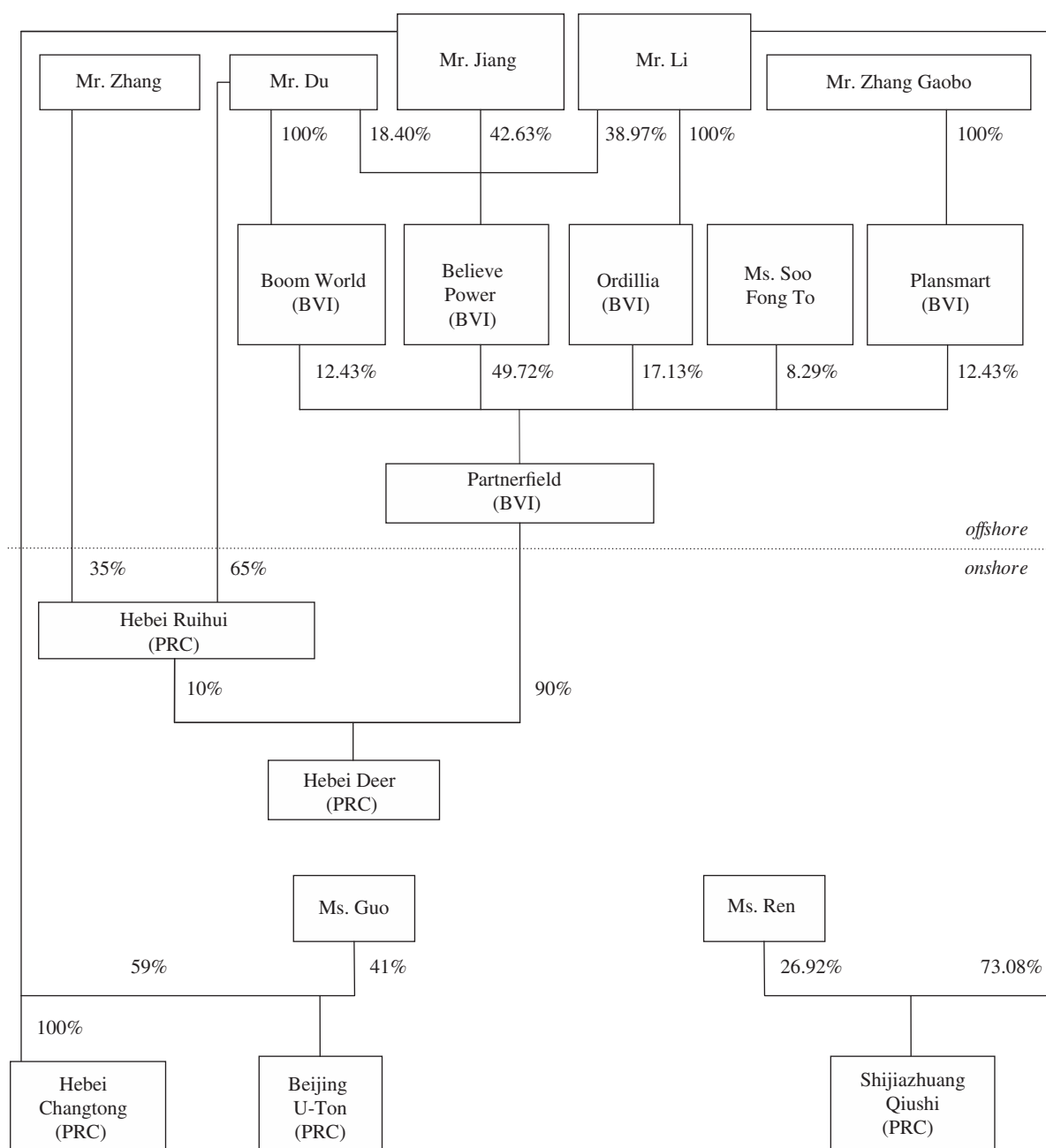
To the best of our Directors' knowledge and as confirmed by Mr. Chen Qizheng (陳齊爭), Mr. Chen Qizheng (陳齊爭) has been engaged in the telecommunication business and acquainted to Mr. Jiang for years. Hence, Beijing U-Ton hired Mr. Chen Qizheng (陳齊爭) as its manager with a view to further developing our client network through his relationships with clients in the telecommunication industry in March 2011 and Mr. Chen Qizheng (陳齊爭) accepted the appointment based on his acquaintance and relationship with Mr. Jiang. In April 2011, Mr. Chen Qizheng (陳齊爭) decided to focus on his own business and ceased to be the manager of Beijing U-Ton and was no longer an employee of our Group. To the best of our Directors' knowledge and as confirmed by Mr. Chen Qizheng (陳齊爭), Mr. Chen Qizheng (陳齊爭) had an acquaintance with several local clients in Xi'an and was able to secure optical fiber deployment contracts with them. Mr. Chen Qizheng (陳齊爭)

## HISTORY, DEVELOPMENT AND REORGANISATION

considered our patented technologies and equipment in relation to micro-ducts and mini-cables system integration methods would be applicable in the deployment projects secured by Shaanxi Wanghe and hence subcontracted the projects to us and became one of the five largest clients of our Group in 2010 and 2011.

As confirmed by our Directors, Partnerfield has no other significance and role in our Group save as serving as an investment holding company and Hebei Deer as the vehicle for holding of various exclusive rights of using public sewer systems for deployment of optical fibers in various areas.

The following chart is the corporate structure chart of our Group immediately before the Reorganisation:





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## HISTORY, DEVELOPMENT AND REORGANISATION

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*Note: Mr. Zhang Gaobo and Ms. Soo Fong To are Independent Third Parties as at the Latest Practicable Date.*

Prior to the Reorganisation, Mr. Jiang and Mr. Li preliminarily planned that (i) Mr. Jiang would acquire the equity interests in Partnerfield and inject the business of Beijing U-Ton and Hebei Changtong into our Group first; and (ii) Mr. Li would subsequently obtain 20% equity interests in Partnerfield on the condition that (a) the equity interests in Shijiazhuang Qiushi would be transferred to our Group, with a view to broadening our revenue stream, and (b) Mr. Li should be responsible for acquiring the entire equity interests in Plansmart held by Mr. Zhang Gaobo and procuring Plansmart to waive the shareholder's loan of HK\$3.75 million. It was also agreed between Mr. Jiang and Mr. Li that Mr. Li's interest in Partnerfield would also be transferred to Mr. Jiang when Mr. Jiang injected the business of Beijing U-Ton and Hebei Changtong into our Group until Mr. Li began to conduct the steps under (ii) above.

Negotiation was conducted with each investor by Mr. Jiang and Mr. Li individually and separately. Conclusion was eventually reached such that the investors acknowledged that the then business of Partnerfield and Hebei Deer (which has not continued in substance since 2007) was not profitable resulting in accumulated loss, and therefore agreed to (i) acknowledge and accept their investment loss in Partnerfield made previously by way of shareholders' loans; (ii) waive their shareholders' loans due from Partnerfield; and (iii) transfer their equity interests (except Plansmart which was then wholly owned by Mr. Zhang Gaobo) in Partnerfield at par value to Mr. Jiang, and additional shares were allotted to Mr. Jiang so that he would own Partnerfield as to 95% while the entire equity interests in Beijing U-Ton were transferred to Hebei Deer by him and Ms. Guo simultaneously. For details, please refer to steps 1 and 2 below.

As to Mr. Zhang Gaobo's 5% interest in Partnerfield through Plansmart, negotiation was conducted by Mr. Li with him individually and conclusion was reached on 14 January 2011 such that Mr. Li would purchase his entire equity interests in Plansmart with reference to his investment to Partnerfield, which was made by way of shareholder's loan at HK\$3.75 million (which was waived on 28 December 2010), plus a premium of HK\$150,000. For details, please refer to step 3 below.

On 28 January 2011, Hebei Deer further acquired the entire equity interests in Hebei Changtong from Mr. Jiang at a consideration of RMB10 million. For details, please refer to step 4 below.

Our Directors confirmed that Hebei Changtong was acquired one month later than the acquisition of Beijing U-Ton by Hebei Deer because additional time was taken for the preparation of the relevant documents and arrangement for the signing by the parties.

As agreed between Mr. Jiang and Mr. Li, Mr. Li altogether held 20% equity interests in Partnerfield (including the equity interests in Partnerfield held by Plansmart whose entire equity interests were acquired by Mr. Li from Mr. Zhang Gaobo on 14 January 2011 and the shares allotted to him on 1 March 2011) upon Hebei Deer's acquisition of the entire equity interests in Shijiazhuang Qiushi held by him and Ms. Ren at a total consideration of approximately RMB9.67 million on 1 March 2011. For details, please refer to steps 5 and 6 below.

On 28 April 2011, Partnerfield entered into an equity transfer agreement with Hebei Ruihui and acquired 10% equity interests in Hebei Deer. On 25 May 2011, upon the completion of the acquisition of the 10% equity interests in Hebei Deer from Hebei Ruihui by Partnerfield, Hebei Deer became our wholly-owned subsidiary. For details, please refer to step 8 below.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Upon completion of the share swap between our Company and Partnerfield on 11 May 2011, Partnerfield was wholly owned by our Company which was owned as to 80% and 20% by Mr. Jiang and Mr. Li through their investment holding companies. For details, please refer to step 9 below.

Although the restructuring costs of approximately RMB13.7 million was incurred in 2010 due to the acquisition of Partnerfield and Hebei Deer, it had no actual net cash outflow of our Group at the time of acquisition of Partnerfield and Hebei Deer because the restructuring costs incurred mainly arose from the recognition of negative net asset value of Partnerfield and Hebei Deer of RMB11.7 million at the time of acquisition and a dilution of 10% equity interests in Beijing U-Ton of RMB1.8 million both being non-cash items. In addition, Hebei Deer holds various exclusive rights of using public sewer systems for deployment of optical fibers in various areas which may be utilised by the Group to provide deployment services in the future. Based on the above factors and that the acquisitions of Beijing U-Ton, Hebei Changtong and Shijiazhuang Qiushi by Hebei Deer did not breach any rules or regulations in the PRC (as confirmed by Commerce & Finance), the Group underwent the onshore and offshore corporate restructuring under the steps pursuant to the Reorganisation.

The steps of the Reorganisation are summarised as follows:

- Step 1 — On 28 December 2010, Mr. Jiang acquired the equity interests in Partnerfield held by all the then shareholders except Plansmart. The consideration per share was equivalent to the par value of each share. On the same day, Partnerfield issued and allotted 17,932 shares credited as fully paid at par to Mr. Jiang. Upon completion, the equity interests in Partnerfield were owned as to 95.00% and 5.00% by Mr. Jiang and Plansmart, respectively.
- Step 2 — On 28 December 2010, Hebei Deer entered into an equity transfer agreement with each of the shareholders of Beijing U-Ton, namely, Ms. Guo and Mr. Jiang, respectively, and acquired the entire equity interests in Beijing U-Ton pursuant to the terms set out below:
  - (a) Pursuant to an equity transfer agreement dated 28 December 2010 entered into between Ms. Guo and Hebei Deer, Hebei Deer acquired 41.00% equity interests in Beijing U-Ton from Ms. Guo at a consideration of RMB4.10 million. The consideration was determined after arm's length negotiation and by reference to the respective capital contribution to the then registered capital.
  - (b) Pursuant to an equity transfer agreement dated 28 December 2010 entered into between Mr. Jiang and Hebei Deer, Hebei Deer acquired 59.00% equity interests in Beijing U-Ton from Mr. Jiang at a consideration of RMB5.90 million. The consideration was determined after arm's length negotiation and by reference to the respective capital contribution to the then registered capital.
  - (c) Upon completion of the equity transfers on 28 December 2010, the equity interests in Beijing U-Ton was wholly owned by Hebei Deer.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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- Step 3 — On 14 January 2011, Mr. Li acquired the entire equity interests in Plansmart from Mr. Zhang Gaobo, an Independent Third Party as at the Latest Practicable Date, at a consideration of HK\$3.90 million. The consideration was determined after arm's length negotiation and by reference to the amount owed by Plansmart to Mr. Zhang Gaobo (which was the source of funding for the shareholder's loan of HK\$3.75 million provided by Plansmart to Partnerfield, the particulars of which are set out in the section headed "History, development and reorganisation — Reorganisation — Shareholders' loans" in this prospectus) plus a premium as agreed by the parties under a commercial decision.
- Step 4 — On 28 January 2011, Hebei Deer entered into an equity transfer agreement with Mr. Jiang, the sole shareholder of Hebei Changtong, and acquired the entire equity interests in Hebei Changtong pursuant to the terms set out below:
  - (a) Pursuant to an equity transfer agreement dated 28 January 2011 entered into between Mr. Jiang and Hebei Deer, Hebei Deer acquired the entire equity interests in Hebei Changtong from Mr. Jiang at a consideration of RMB10.00 million. The consideration was determined after arm's length negotiation and by reference to respective capital contribution to the then registered capital.
  - (b) Upon completion of the equity transfers on 28 January 2011, the equity interests in Hebei Changtong were wholly owned by Hebei Deer.
- Step 5 — On 1 March 2011, Hebei Deer entered into an equity transfer agreement with each of the shareholders of Shijiazhuang Qiushi, namely, Mr. Li and Ms. Ren, and acquired the entire equity interests in Shijiazhuang Qiushi pursuant to the terms set out below:
  - (a) Pursuant to an equity transfer agreement dated 1 March 2011 entered into between Mr. Li and Hebei Deer, Hebei Deer acquired approximately 73.08% equity interests in Shijiazhuang Qiushi from Mr. Li at a consideration of approximately RMB7.07 million. The consideration was determined after arm's length negotiation and by reference to the net asset value of Shijiazhuang Qiushi on 31 December 2010 assessed by an independent asset valuer qualified in the PRC.
  - (b) Pursuant to an equity transfer agreement dated 1 March 2011 entered into between Ms. Ren and Hebei Deer, Hebei Deer acquired approximately 26.92% equity interests in Shijiazhuang Qiushi from Ms. Ren at a consideration of approximately RMB2.60 million. The consideration was determined after arm's length negotiation and by reference to the net asset value of Shijiazhuang Qiushi assessed by an independent asset valuer qualified in the PRC.
  - (c) Upon completion of the equity transfers on 1 March 2011, the equity interests in Shijiazhuang Qiushi were wholly owned by Hebei Deer.
- Step 6 — On 1 March 2011 when the above equity transfer agreements in step 5 above were entered, Partnerfield issued and allotted 5,625 shares credited as fully paid at par to Mr. Li. Upon completion, the equity interests of Partnerfield were owned as to 80.00%, 15.79% and 4.21% by Mr. Jiang, Mr. Li and Plansmart (the entire equity interests of which were owned by Mr. Li), respectively.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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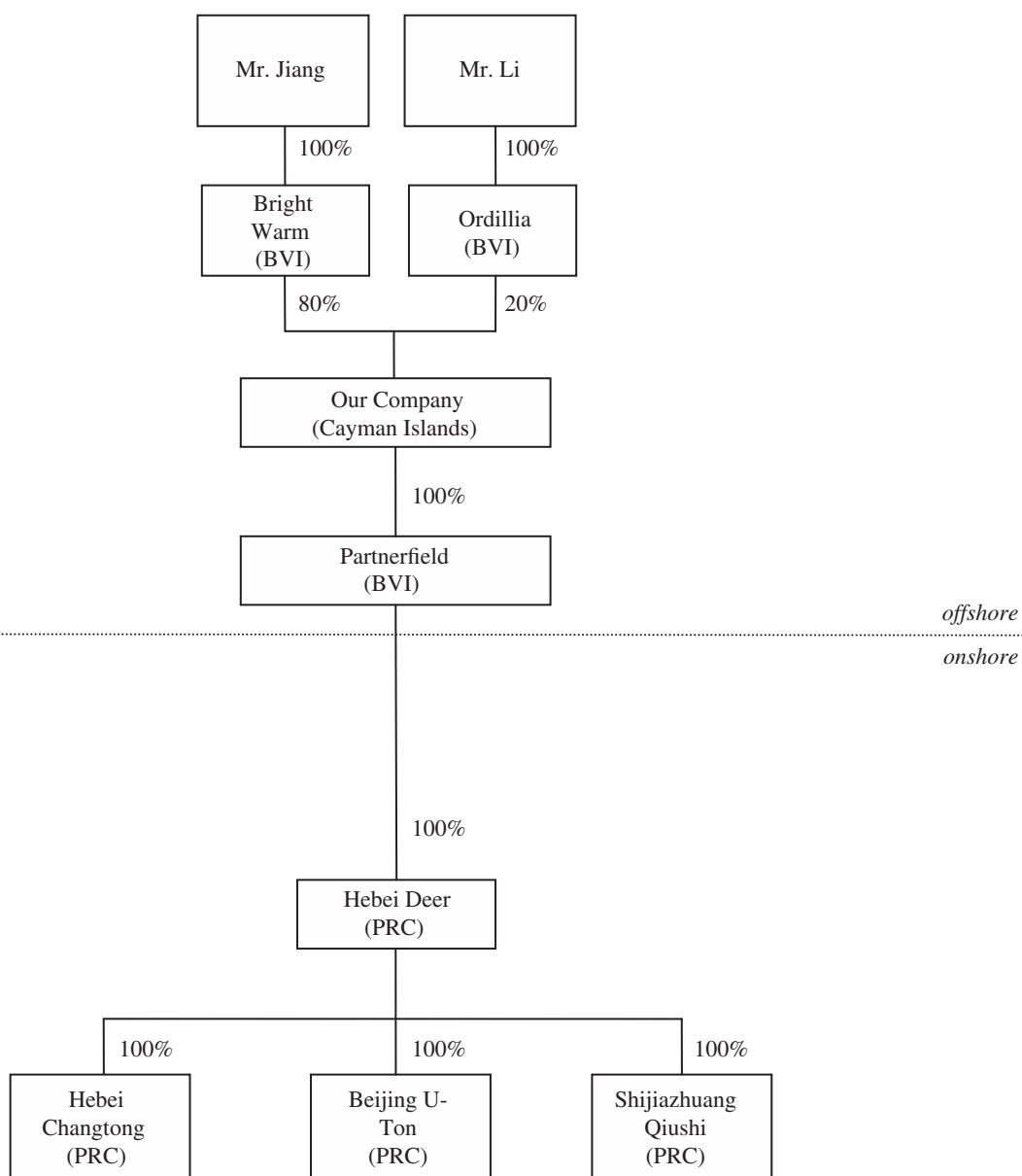
- Step 7 — On 7 March 2011, our Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$100,000 divided into 1 million shares having a par value of HK\$0.10 each. On the same day, one share with par value of HK\$0.10 was allotted and issued as fully paid at par to Company Secretaries Ltd., the first subscriber. On 31 March 2011, the first subscriber transferred the issued one share to Ordillia and 19 and 80 additional shares were issued and allotted at par to Ordillia and Bright Warm, respectively. Upon completion, our Company was owned as to 80.00% and 20.00% by Bright Warm and Ordillia, respectively.
- Step 8 — On 28 April 2011, Partnerfield entered into an equity transfer agreement with Hebei Ruihui and acquired 10.00% equity interests in Hebei Deer pursuant to the terms set out below:
  - (a) Pursuant to an equity transfer agreement dated 28 April 2011 entered into between Partnerfield and Hebei Ruihui, Partnerfield acquired 10.00% equity interests in Hebei Deer from Hebei Ruihui at a consideration of RMB1.80 million. The consideration was determined by reference to the audited net asset value of Hebei Deer as at 31 December 2010.
  - (b) Upon completion of the equity transfers on 25 May 2011, the equity interests of Hebei Deer was wholly owned by Partnerfield. Hebei Deer was converted into a wholly foreign-owned enterprise.
- Step 9 — On 11 May 2011, in consideration of our Company allotting 720 shares credited as fully paid to Bright Warm, Mr. Jiang transferred the 80.00% equity interests in Partnerfield held by him to our Company. On the same day, in consideration of our Company allotting 180 shares credited as fully paid to Ordillia, Mr. Li and Plansmart transferred the 15.79% and 4.21% equity interests in Partnerfield held by each of them to our Company, respectively. Upon completion, our Company continued to be owned as to 80.00% and 20.00% by Bright Warm and Ordillia, respectively.
- Upon completion of the Reorganisation, our Company became the ultimate holding company of our Group in anticipation of the Placing.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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The following chart set out the shareholding structure of our Group immediately following the completion of the Reorganisation, but before the completion of the Placing and Capitalisation Issue:

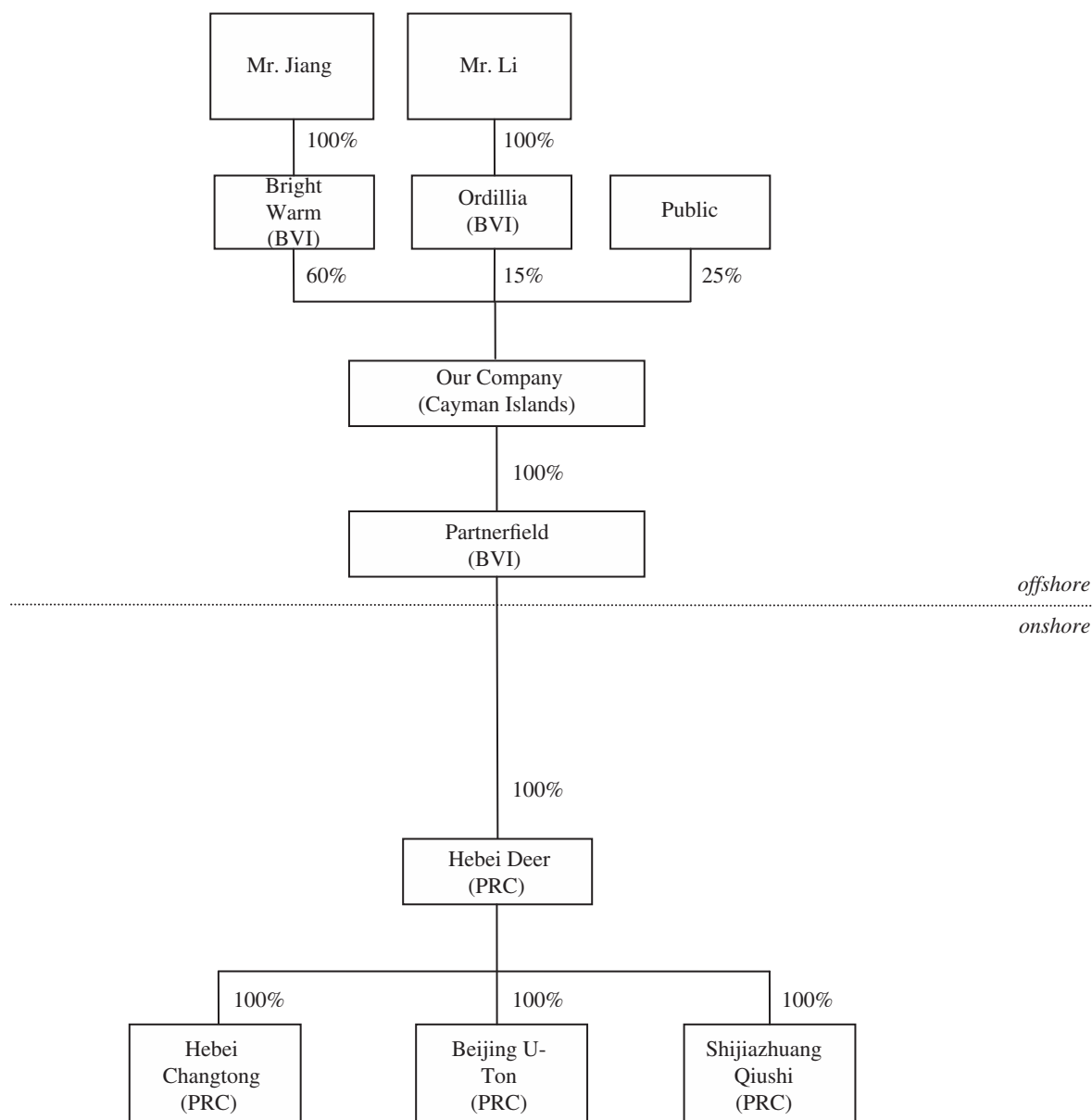


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## HISTORY, DEVELOPMENT AND REORGANISATION

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The following chart set out our shareholding structure immediately following completion of the Placing and Capitalisation Issue (taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme):



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **Circular 75**

On 21 October 2005, the SAFE issued Circular 75, which became effective as of 1 November 2005. According to Circular 75, (a) a PRC citizen must register with the local SAFE branch before he or she establishes or controls a SPV for the purpose of conducting overseas equity financing; (b) when a PRC citizen contributes assets or equity interests to an overseas SPV, or engages in overseas financing after contributing assets or equity interests in a domestic enterprise to an overseas SPV, such PRC citizen must register his or her interest in the overseas SPV or any change to his or her interest in the overseas SPV with the local SAFE branch; and (c) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the PRC citizen must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. Moreover, Circular 75 applies retroactively.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular 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, and may also subject relevant PRC residents to penalties under the PRC foreign exchange administration regulations.

Mr. Jiang and Mr. Li have completed the initial foreign exchange registration for their overseas investment and the registration for the change of their beneficial interest in their overseas investments.

### **M&A Regulations and Overseas Listings**

On 8 August 2006, six PRC regulatory bodies, including the MOFCOM, the State-owned Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE, jointly issued the M&A Regulations, which became effective on 8 September 2006 and were amended on 22 June 2009. The M&A Regulations, among other things, include provisions that purport to require a SPV formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC domestic companies or individuals to obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange.

Commerce & Finance confirmed its opinion that the overseas listing of our Company does not need any approval of PRC governmental authorities, including the provincial governmental authorities, the MOFCOM and the CSRC, according to the structure and the change on the shareholding of the Group's companies as well as the confirmations issued by relevant shareholders in relation to the shareholding transfer conducted, the merger of Hebei Deer by Partnerfield, as a SPV, was completed before 8 September 2006, when the M&A Regulations became effective and the M&A Regulations are not applicable to such merger. Commerce & Finance confirmed that no consultation has been made with the CSRC and MOFCOM on the applicability of the M&A Regulations on the Listing after considering that the M&A Regulations are not applicable to the Reorganisation and the Listing.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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In order to streamline our corporate structure and business operations with a single vertical holding structure over our operating subsidiaries, we restructured our corporate structure such that Beijing U-Ton, Hebei Changtong and Shijiazhuang Qiushi were acquired by Hebei Deer as part of the steps of the Reorganisation. Commerce & Finance, advised that the acquisitions of Beijing U-Ton, Hebei Changtong and Shijiazhuang Qiushi by Hebei Deer are re-investment activities by Hebei Deer under the relevant regulations in relation to the re-investment of the foreign invested enterprises. Therefore, the M&A Regulations are not applicable to such acquisitions and the acquisitions have not breached any rules or regulations in the PRC.

As advised by Commerce & Finance, the M&A Regulations are not applicable to the Listing and our Group has obtained all requisite permits, consents, licences, filings and approvals for each stage of the onshore reorganisation of our Group by the respective governing authorities.



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## BUSINESS

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### OVERVIEW

#### Our principal business

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

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

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

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## BUSINESS

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

Pursuant to the Budgeting Measures, the formulation of the budgeting of a project relating to telecommunication construction is required to make reference to the Price Scale set by the Ministry of Industry and Information Technology. The Budgeting Measures is applicable to our major clients, which are the major telecommunication operators in the PRC and they are prohibited to accept any tender for deployment projects of optical fibers with a quoted price exceeding the relevant benchmark price set out in the Price Scale.

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

### **Our major clients**

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

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

### **Our project workflow**

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

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## BUSINESS

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

### **Our suppliers**

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

### **Intellectual property rights**

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

### **Our location**

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

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

### **Acquisition of Shijiazhuang Qiushi**

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

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

### **OUR COMPETITIVE STRENGTHS**

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

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

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

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

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

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

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

Our senior management team and key technical personnel have extensive industry knowledge, project management experience and industry expertise in the industries in which we operate. Mr. Jiang, who has approximately 20 years’ working experience in the telecommunications industry specialising in optical fiber deployment technology, has played a key role in our Group’s success. As at 31 December 2011, 107 members of our staff have either received tertiary education or above or professional qualifications in areas such as engineering, building, surveying and accounting. We believe our senior management team enables us to capture market opportunities, formulate and execute sound business strategies. Please refer to the section headed “Directors, senior management and staff” in this prospectus for biographies of our management team.

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

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

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

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### We have an established network in the PRC

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

### PRODUCTS AND SERVICES

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

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

*Notes:*

1. The revenue represented the revenue generated from the deployment services of optical fibers which involve the application of micro-ducts and mini-cables system integration methods.
2. Services income represented the revenue generated from our provision of maintenance services in respect of optical fiber networks.

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3. Sales of goods represented the revenue generated from our sales of ancillary products, including micro-ducts and anti-corrosive steel wires.
4. Rental income represented the revenue generated from a sublease for deployment of telecommunication networks.
5. The revenue represented the revenue of Shijiazhuang Qiushi from 1 March 2011 (date of acquisition) to 31 December 2011.

### DEPLOYMENT OF OPTICAL FIBERS

#### Deployment services of optical fibers

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

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

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

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

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

#### Traditional deployment methods

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

### *Direct burial*

One of the traditional deployment methods is direct burial. Direct burial involves excavating a narrow trench in order to bury the cables. It requires prior site visit to avoid damaging other buried services. Excavation techniques include mole open trenching, ploughing, slotting and directional drilling. When deploying cables in a particular area, a combination of these options can be used. However, such deployment technique would generate certain environmental pollution, such as air and noise pollution.

### *Aerial access*

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

### *Conduit installation*

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

### *Pipe jacking*

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

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

Micro-ducts and mini-cables system integration methods, unlike traditional deployment methods, require our solution including the design of routing of optical fibers, deployment methods to be used, materials to be used including optical fibers, the necessary engineers and manpower to lay the optical fibers, laying services, connection and testing of the optical fibers until completion. Deployment methods used for this kind of projects include a combination of certain deployment methods known as in-sewer, pipe jacking and cable troughing utilising our patented technology in relation to micro-ducts and mini-cables.

### *In-sewer deployment method*

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



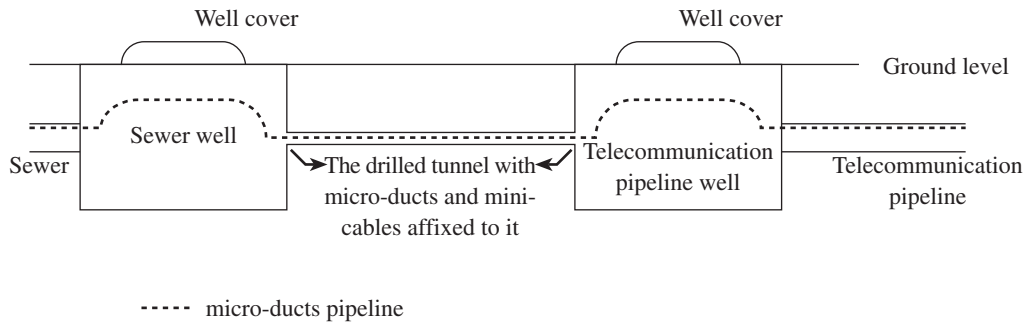
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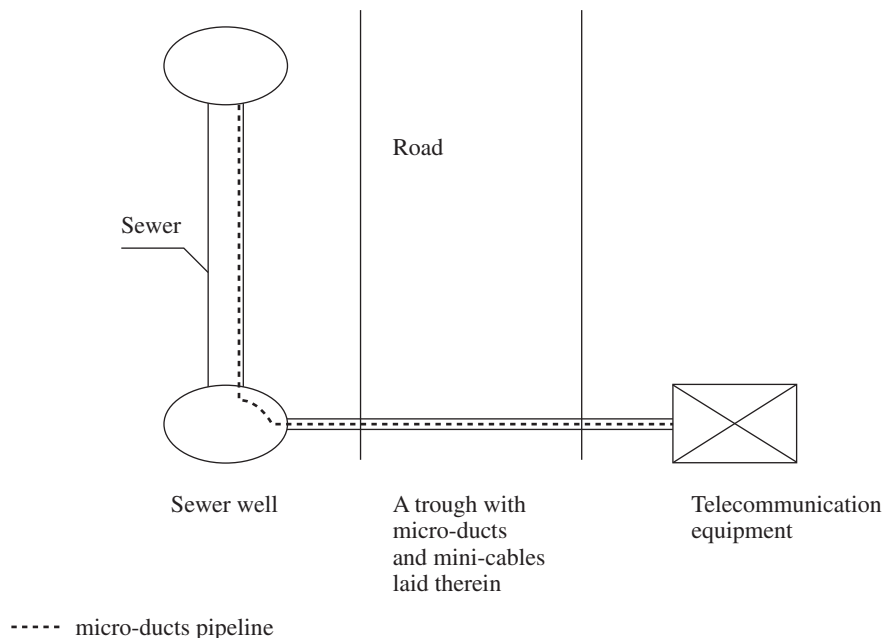
### *Pipe jacking*

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



### *Cable troughing*

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



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

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### Rights to use sewer systems

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

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

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

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

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

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

As advised by Commerce & Finance, there is no common and specific laws or regulations, as well as no prohibitive policies governing the grant of rights by the PRC governmental authorities in using the public sewer systems (including the qualifications of the applicants for such rights). We

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

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

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

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

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

*Notes:*

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

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

	<b>Traditional deployment methods</b>	<b>Micro-ducts and mini-cables system integration methods</b>
Types of services/works	<ul style="list-style-type: none"> <li>- Direct burial</li> <li>- Aerial access</li> <li>- Conduit installation</li> <li>- Pipe jacking</li> </ul>	<ul style="list-style-type: none"> <li>- In-sewer deployment</li> <li>- Pipe jacking</li> <li>- Cable troughing</li> </ul>
Materials used	<ul style="list-style-type: none"> <li>- Optical fibers are provided by clients</li> </ul>	<ul style="list-style-type: none"> <li>- Micro-ducts and mini-cables are provided by us</li> </ul>
Involvement of subcontractors/ temporary workers	<ul style="list-style-type: none"> <li>- Conducting non-technical works</li> </ul>	<ul style="list-style-type: none"> <li>- Conducting non-technical works</li> </ul>
Number of completed projects ( <i>Note 1</i> )		
- As at 31 December 2010	23	24
- As at 31 December 2011	69	46
Number of projects in progress ( <i>Notes 1 and 2</i> )		
- As at 31 December 2010	28	21
- As at 31 December 2011	40	16
Average construction period of a project (months) ( <i>Note 1</i> )	7.7	9.0

*Notes:*

1. The number of completed projects and projects in progress and the average construction period of a project in respect of the micro-ducts and mini-cables system integration methods referred to the projects involving the application of micro-ducts and mini-cables system integration methods.
2. Projects in progress referred to projects for which we have recognised part but not all of the revenue for accounting purposes as at the end of the relevant period. The portion of contract value for projects in progress which has not been realised was deemed as part of our backlog.

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### OTHER REVENUE

#### Maintenance services

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

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

#### Sales of ancillary products

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

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

#### Rental income

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

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### LOW-VOLTAGE EQUIPMENT INTEGRATION SERVICES

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

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

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

### OUR PROJECTS AND SERVICES

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

- completed projects — refer to projects for which 100% of the revenue has been recognised for accounting purpose as at a point in time;
- projects in progress — refer to the projects for which we have recognised part but not all of the revenue for accounting purpose as at a point in time. The portion of contract value for projects in progress which has not been realised is deemed as part of our backlog; and
- projects to be commenced — refer to projects which have been secured by us but have not commenced works and no revenue has been recognised as at a point of time. Contract value for projects to be commenced is deemed as part of our backlog.

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### **Deployment services of optical fibers**

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

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



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### Completed projects

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

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

Notes:

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

# BUSINESS

## Projects in progress

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

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

Notes:

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

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### Projects to be commenced

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

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

#### Notes

- Projects to be commenced referred to projects for which have been secured by us but have not commenced works and no revenue has been recognised as at the end of the relevant period.
- Contractual date of completion referred to the latest of all contractual dates of completion of relevant projects as at the dates indicated.
- 18 May 2012, being the latest practicable date for the Group to ascertain the number of projects, total contractual amount for projects and the contractual date of completion of these projects for the purpose of inclusion of such information in this prospectus.
- Contractual date of completion and/or contractual amount of the project was not stipulated in these agreements and hence such information was not available as at 18 May 2012. For this kind of agreements, we would then enter into another agreement with our client later to finalise the contractual date of completion and the contractual amount.
- These projects were still yet to be commenced as at 18 May 2012 which were mainly due to the commencement dates of such projects were postponed by mutual agreements between clients and us pending further information such as the detailed design of deployment works required and notification to commence works to be provided by our clients before we can commence the project. Pursuant to the relevant agreements, no penalty shall be imposed on our Group when any project has not yet completed upon the expiry of its contractual date of completion.

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

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

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

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

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### Projects in progress and projects to be commenced

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

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

*Notes:*

1. Project in progress referred to projects for which we have completed part of the works as stipulated in the contracts, but no revenue is recognised for accounting purposes as the revenue recognition is based on sales of goods for our low-voltage equipment integration services. Projects to be commenced refer to projects for which have been secured by us but have not commenced works and no revenue has been recognised as at the end of the relevant period.
2. Backlog amount for the projects referred to the difference between the total contractual amount of projects and their recognised revenue for the relevant periods.
3. 18 May 2012, being the latest practicable date for the Group to ascertain the number of projects and the contractual date of completion of these projects for the purpose of inclusion of such information in this prospectus.
4. Contractual date of completion referred to the latest of all contractual dates of completion of relevant projects as at the dates indicated.

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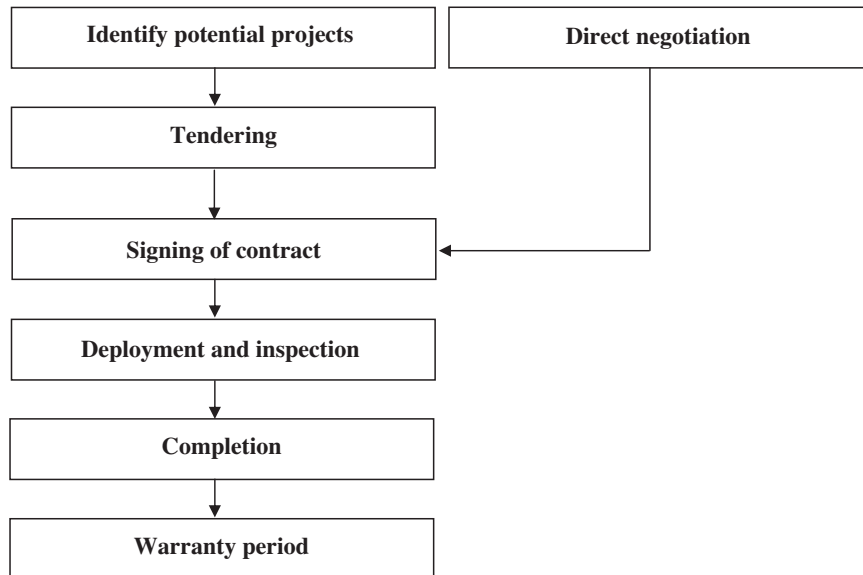
## BUSINESS

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### PROJECT WORKFLOW

#### Deployment of optical fibers

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



#### Identify potential projects/Direct negotiation

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

#### Tendering

##### *Tender review*

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

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

### *Experimental section*

If required, we will build an experimental section for trial by our potential client. In an experimental section, a short distance of the underground sewer systems, which generally ranges from 500 metres to 3,000 metres, constituting the project will be used and underground optical fibers will be deployed in this selected part of sewer by means of in-sewer deployment method which utilises our patented technology in relation to micro-ducts and mini-cables. Upon completion, we will carry out system testing to evaluate the transmission efficiency of the optical fibers and to ensure the installation of the optical fiber infrastructure will not interfere with the sewer systems. The relevant testing report will then be included in our tender documents for client's consideration. The average costs for an experimental section for trial in deployment services during the Track Record Period ranged from approximately RMB0.07 million to approximately RMB0.3 million and varied according to the location, lengths of optical fibers deployed and complexity of the experimental section.

### *Tender submission*

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

### **Signing of contract**

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

### **Deployment and inspection**

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

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

### **Warranty period**

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



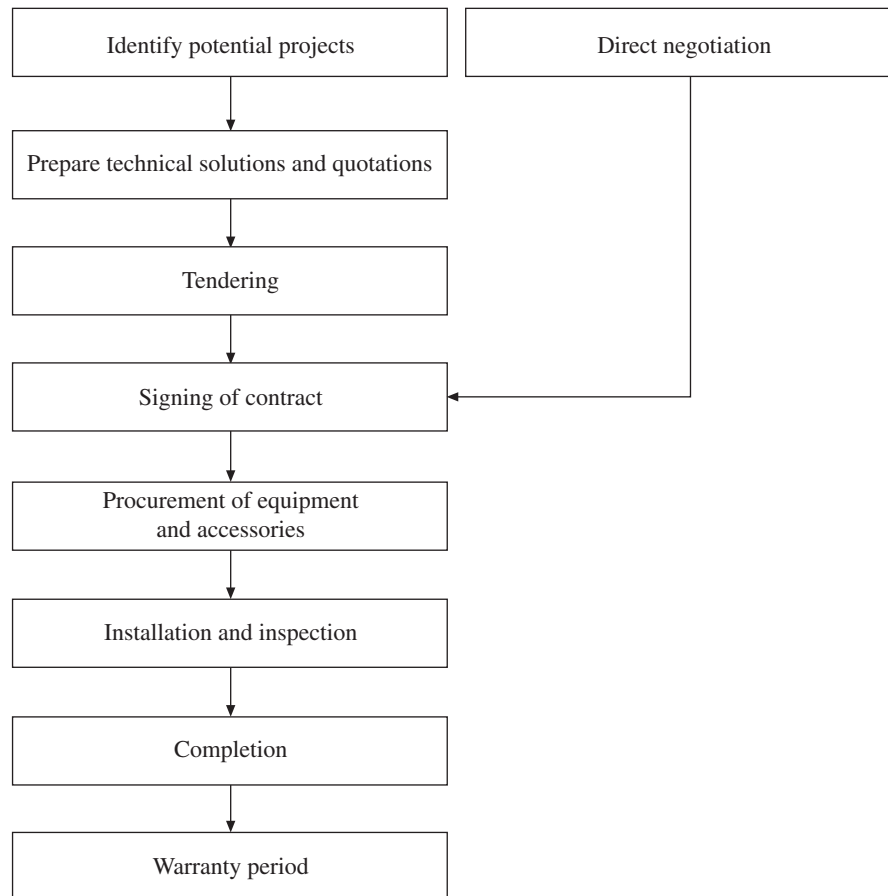
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## BUSINESS

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### Low-voltage equipment integration services

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



### Identify potential projects/Direct negotiation

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

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### **Prepare technical solutions and quotations**

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

### **Tendering**

#### *Tender review*

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

#### *Tender submission*

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

### **Signing of contract**

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

### **Procurement of equipment and accessories**

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

### **Installation and inspection**

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

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

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

### **Warranty period**

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

### **TECHNICAL COLLABORATION**

Our Directors believe that, in order to maintain the competitiveness in the industry, our Group must keep abreast of the development of technique and technology and adopt an innovative approach in the research and development of deployment services of optical fibers. We have been in collaboration with the Major Telecommunication Operator and a university in the PRC since 2007 to jointly developing new techniques used in connection with deployment services of optical fibers. The patents developed under the collaborations between us and the said university in the PRC have not been applied to projects conducted during the Track Record Period and the patents developed under the collaborations between us and the Major Telecommunication Operator were applied to projects

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using micro-ducts and mini-cables system integration methods. However, given that each project involved a combination of deployment methods which may utilise certain patents developed solely or jointly by us, the revenue generated by a particular patent cannot be quantified objectively and accurately.

Our Group entered into a collaboration agreement with the Major Telecommunication Operator on 10 May 2007 in respect of the invention of the seven-hole plum blossom pipe which is used in connection with micro-ducts and mini-cables. There are, however, no specific terms in the agreement stipulating the right of use of such patents and entitlement of our Group and the Major Telecommunication Operator as to the economic sharing derived from the use of the relevant patents. By several confirmation letters executed by Beijing U-ton in February 2012, we confirmed that (1) we shall not charge any fee for the transfer or licensing of such patents to any third parties; (2) we shall not be entitled to any revenue generated from the use, or transfer or licensing of such patents by the Major Telecommunication Operator; and (3) we have no intention to transfer or licensing in any nature to any third parties as at the date of the confirmation letters. Nevertheless, as advised by Commerce & Finance, the patents jointly owned by us and the Major Telecommunication Operator can be used in any deployment projects and there is no restriction on the use of such patents.

As advised by Commerce & Finance, unless there is an agreement stipulating the right of use of the patent or the entitlement of economic sharing derived from the use of the patent, either owner of the jointly-owned patent shall have rights over the patent and either of them is entitled to use the patent as the registered and beneficial owner on its own. If the Major Telecommunication Operator transfers or licenses the right of use of these patents to a third party, whom may use the patent in a way detrimental to our Group, our results of operations and financial conditions may be adversely affected. For details, please refer to the section headed “Risk factors — The intellectual property rights in respect of the projects jointly researched and developed by us and other third parties are jointly-owned” in this prospectus.

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

### **MATERIAL INTELLECTUAL PROPERTY RIGHTS**

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

As at the Latest Practicable Date, we have registered one trademark and obtained a total of 24 appearance design, utility and invention patents which our Directors consider them material to the Group covering the relevant machinery, techniques and parts in relation thereto and, among which, some were transferred from Ms. Guo previously. Among these 24 appearance design and patents, six are jointly owned by the Major Telecommunication Operator and us (please see the section headed


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“Further information about the business of our Group — Intellectual property rights of our Group” in Appendix IV to this prospectus). Please refer to the section headed “Business — Technical collaboration” above regarding the economic sharing between our Group and the Major Telecommunication Operator of jointly-owned patents. These 24 patents were applied to our provision of deployment services of optical fibers in the PRC during the Track Record Period.

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

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

## MARKETING AND PROMOTION

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

### Pricing policies

#### *Deployment services of optical fibers*

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

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

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

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### CLIENTS

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

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

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

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

We also provide traditional deployment services of optical fibers to Shaanxi Wanghe, a former subsidiary which is currently held by an Independent Third Party. Shaanxi Wanghe is principally engaged in provision of integration and deployment services of mini-cables, and the development and technical consultancy services of network system. We acquired 80% equity interests in Shaanxi Wanghe in April 2006 and, owing to the fact that Shaanxi Wanghe had been recording losses in previous years, we disposed of such equity interests in Shaanxi Wanghe in November 2009, for details, please see the section headed "History, development and reorganisation — Corporate development — Hebei Deer" in this prospectus. Our Directors consider that Shaanxi Wanghe is one of the competitors of the Group since it may also compete with us for deployment projects of optical fibers from

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telecommunication operators in the PRC. However, when Shaanxi Wanghe obtains deployment projects of optical fibers from its clients, which are generally telecommunication operators in the PRC, they may subcontract part of the deployment works to other third parties including us. Instead of entering into any long term or master agreement, we generally enter into a separate agreement with Shaanxi Wanghe on a project-by-project basis. For the two years ended December 2010 and 2011, revenue derived from Shaanxi Wanghe was approximately RMB3.4 million and RMB3.6 million, and accounted for approximately 6.6% and 2.2% of our total revenue, respectively.

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

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

	Year ended 31 December			
	2010	%	2011	%
	<i>(RMB'000)</i>		<i>(RMB'000)</i>	
<b>Construction contract revenue</b>				
Subcontracted projects				
- Shaanxi Wanghe	3,402	7.4	3,553	3.2
- A governmental department	<u>2,753</u>	<u>6.0</u>	<u>—</u>	<u>—</u>
	6,155	13.4	3,553	3.2
Non-subcontracted projects	<u>39,597</u>	<u>86.6</u>	<u>109,085</u>	<u>96.8</u>
Total	<u><u>45,752</u></u>	<u><u>100.0</u></u>	<u><u>112,638</u></u>	<u><u>100.0</u></u>
<b>Cost of services of construction contract revenue</b>				
Subcontracted projects				
- Shaanxi Wanghe	1,949	7.7	1,749	3.1
- A governmental department	<u>1,140</u>	<u>4.5</u>	<u>—</u>	<u>—</u>
	3,089	12.2	1,749	3.1
Non-subcontracted projects	<u>22,320</u>	<u>87.8</u>	<u>54,166</u>	<u>96.9</u>
Total	<u><u>25,409</u></u>	<u><u>100.0</u></u>	<u><u>55,915</u></u>	<u><u>100.0</u></u>

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	Year ended 31 December			
	2010	%	2011	%
	<i>(RMB'000)</i>		<i>(RMB'000)</i>	
<b>Gross profit of construction contract revenue</b>				
Subcontracted projects				
- Shaanxi Wanghe	1,453	7.1	1,804	3.2
- A governmental department	1,613	7.9	—	—
	<u>3,066</u>	15.0	<u>1,804</u>	3.2
Non-subcontracted projects	<u>17,277</u>	85.0	<u>54,919</u>	96.8
Total	<u><u>20,343</u></u>	<u>100.0</u>	<u><u>56,723</u></u>	<u>100.0</u>
<b>Gross profit margin of construction contract revenue</b>				
Subcontracted projects				
- Shaanxi Wanghe	42.7%		50.8%	
- A governmental department	58.6%		N/A	
- Overall	49.8%		50.8%	
Non-subcontracted projects	43.6%		50.4%	

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

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

### SUPPLIERS, PARTS AND COMPONENTS

#### *Deployment services of optical fibers*

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

We purchase certain materials such as polyethylene and steel wires for the manufacturing of our micro-ducts and anti-corrosive steel wires. We outsource the manufacturing process of micro-ducts to manufacturers, who are Independent Third Parties, by providing them with raw materials of our own recipe whereas we provide steel wires and coating materials of our own recipe to manufacturers, who



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

Our purchases of raw materials, parts and components are all settled in Renminbi. Generally, our suppliers offer us a credit period ranged from payment on delivery to 90 days. We have maintained good working relationships with our major suppliers in the PRC. We do not enter into any long-term contract with our suppliers but place separate purchase orders to them. There are many options in the market and we do not rely on a single source of supply of such raw materials, parts and components. Our Directors believe that our Group's major raw materials, parts or components can be purchased from a number of different suppliers at prices comparable to those offered by our Group's current suppliers and our Group has never experienced any material fluctuation in raw material cost during the Track Record Period.

### *Low-voltage equipment integration services*

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

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

For the two years ended 31 December 2010 and 2011, our Group's five largest suppliers, in aggregate, accounted for approximately 62.2% and 27.6%, respectively, of our Group's total purchase cost of materials. For the two years ended 31 December 2010 and 2011, purchases from the largest supplier of our Group accounted for approximately 27.6% and 8.5% of our Group's total purchase cost of materials, respectively.

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

## QUALITY CONTROL

In respect of deployment projects of optical fibers, our Group has a quality control team of three members overseeing and an internal quality control policy regulating the quality of raw materials, parts and components being purchased. Parts and components purchased by us are subject to sample testing and quality inspection by our quality control team before being used to ensure that they comply

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with our quality standards. In the event that our quality control team is of the view that the parts and components do not meet our quality standard, the quality control team will report the assessment results to our purchasing department, which will then return the sub-standard parts and components to the suppliers.

### SUBCONTRACTING

We maintain our own engineering team to carry out technical works in order to protect our technical know-how and in view of cost effectiveness and better allocation of resources, we appoint subcontractors (including individuals and corporate entities), which are Independent Third Parties and do not have any past relationships with our Group, Directors, shareholders or any of their respective associates, to carry out certain non-technical works. To ensure the overall quality of our works, we have maintained a list of subcontractors, the selection of which are based on their previous job references, reputation in the industry, the management control of the subcontractors and price competitiveness of their quotations. In prior years, we engaged subcontractors who were individuals as we did not realise the importance of requiring our subcontractors to possess business licences such that we might have to assume the responsibilities as employer for the staff of such subcontractors and the potential liabilities thereof. All of our corporate subcontractors possessed business licence during the Track Record Period. However, our subcontractors who were individuals did not possess business licences during the Track Record Period. We have adopted the policy that we would only engage corporate subcontractors who possess valid business licences in 2012 and all of our subcontractors possess business licences as at the Latest Practicable Date. Given that the difference between the fees of corporate subcontractors with or without business licences was immaterial during the Track Record Period, our Directors expect that there will not be any material increase in our operating costs attributable to our engagement of licensed subcontractors. In addition to business licence, our current subcontractors for provision of low-voltage equipment integration services should also possess qualification certificates for safety protection construction enterprises (安防工程企業資質證書). As at the Latest Practicable Date, all of our subcontractors for provision of low-voltage equipment integration services obtained such qualification certificates.

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

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

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

### AWARDS AND CERTIFICATES

The following table set out our major qualifications and certifications:

<b>Year of grant</b>	<b>Nature</b>	<b>Recipient</b>	<b>Qualification/certifications</b>	<b>Granting organisation or authority</b>	<b>Validity period</b>
2002	Qualification	Hebei Changtong	Grade III in Telecommunications Engineering Project and Construction Intelligent Engineering Project (電信工程專業承包三級及建築智能化工程專業承包三級) with the capacity to undertake projects with contract sum of no more than RMB6 million	Department of Housing and Urban-Rural Development of Hebei Province (河北省住房和城鄉建設廳)	Renewed on 20 July 2011 and valid until further examination, presumably in 2013 to 2014
2007	Qualification	Hebei Changtong	Grade II in Enterprise Qualification Certificate in Communication Information Network System Integration (通信信息網絡系統集成企業資質證書乙級資質) with the capacity to undertake projects with contract sum of no more than RMB10 million	Ministry of Industry and Information Technology	9 September 2007 to 8 September 2012

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<b>Year of grant</b>	<b>Nature</b>	<b>Recipient</b>	<b>Qualification/ certifications</b>	<b>Granting organisation or authority</b>	<b>Validity period</b>
2008	Qualification	Shijiazhuang Qiushi	Grade III in Construction Intelligent Engineering Project (建築智能化工程專業承包三級) with the capacity to undertake projects with contract sum of no more than RMB6 million	Bureau of Housing and Urban-Rural Development of Shijiazhuang (石家莊市建設局)	Renewed on 7 June 2011 and valid until further examination, presumably in 2013 to 2014
2009	Safety Production Certification	Hebei Changtong	Safety Production Licence (安全生產許可證)	Department of Housing and Urban-Rural Development of Hebei Province (河北省住房和城鄉建設廳)	3 September 2009 to 3 September 2012
2009	Safety Production Certification	Shijiazhuang Qiushi	Safety Production Licence (安全生產許可證)	Department of Housing and Urban-Rural Development of Hebei Province (河北省住房和城鄉建設廳)	13 October 2011 to 13 October 2014
2010	Safety Production Certification	Shijiazhuang Qiushi	First Degree Protection Technology Protection Licence (安全技術防範一級)	Hebei Security Technology and Protection Association (河北省安全技術防範學會)	1 March 2012 to 1 March 2013

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<b>Year of grant</b>	<b>Nature</b>	<b>Recipient</b>	<b>Qualification/ certifications</b>	<b>Granting organisation or authority</b>	<b>Validity period</b>
2010	Qualification	Beijing U-Ton	Grade III in Communication and Network System Integration Enterprise Qualification Certificate (通信信息網絡系統集成企業資質證書丙級資質) with the capacity to undertake projects with contract sum of no more than RMB10 million (for communication and network system integration) and no more than RMB5 million (for telecommunication infrastructure network system integration)	Ministry of Industry and Information Technology	25 November 2010 to 25 November 2012
2010	Qualification	Shijiazhuang Qiushi	Grade III in Computer Information System Integration Service Enterprise Qualification Certificate (計算機信息系統集成企業資質證書三級)	Ministry of Industry and Information Technology	6 February 2010 to 5 February 2013
2010	Quality Management System Standard Certification	Beijing U-Ton	GB/T 19001-2008 idt ISO 9001:2008 Quality Management System Standard	TL Certification Center (泰爾認證中心)	10 March 2010 to 9 March 2013
2010	Quality Management System Standard Certification	Hebei Changtong	GB/T 19001-2008 ISO9001: 2008 Quality Management System Standard	China Quality Certification Centre (中國質量認證中心)	12 January 2010 to 11 January 2013

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Year of grant	Nature	Recipient	Qualification/certifications	Granting organisation or authority	Validity period
2011	Quality Management System Standard Certification	Shijiazhuang Qiushi	GB/T 19001-2008 idt ISO 9001:2008 Quality Management System Standard	Beijing East Allreach Certification Center (北京東方縱橫認證中心)	16 July 2011 to 15 July 2014

The following table set out our major award:

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

## COMPETITION

### *Deployment of optical fibers*

We primarily compete with all companies which are engaged in the provision of the deployment services, either by using traditional deployment methods or micro-ducts and mini-cables system integration methods.

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

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

### *Low-voltage equipment integration services*

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

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

### **INVENTORY PROCUREMENT AND CONTROL**

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

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

### *Deployment of optical fibers*

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

### *Low-voltage equipment integration services*

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

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

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### PROPERTY INTERESTS

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all our Group's interests in land or buildings.

According to our Group's consolidated statements of financial position set out in Appendix I to this prospectus, the carrying amount of total assets as at 31 December 2011 was approximately RMB218.4 million and the carrying amount of the leasehold land and building as at 31 December 2011 was approximately RMB0.5 million. As such and pursuant to Rule 8.01A of the GEM Listing Rules, our Directors confirm that:

- our Group does not have any property interest that forms part of property activities as at 31 December 2011, so the aggregate carrying amount of the property interest that forms part of our Group's property activities does not exceed 10% of the its total assets as at 31 December 2011; and
- the total and single property interest that forms part of non-property activities do not respectively have a carrying amount of 15% or more of our Group's total assets as at 31 December 2011.

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

#### **Owned property**

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



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### Leased properties

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

No.	Description/Location	Gross Floor Area <i>(sq.m.)</i>	Occupied by	Nature of Building	Existing Usage	Lease Term <i>(year)</i>	Annual Rent <i>(RMB)</i>
1.	A unit on Level 5 of Shennong Plaza No. 45, Tangu South Street Yuhua District Shijiazhuang City Hebei Province The PRC	212	Hebei Changtong	Office	Office	21 February 2011 to 20 February 2014	40,000
2.	Unit 302 to Unit 312 on Level 3 of an office building No. 465, Huaibei Road Shijiazhuang City Hebei Province The PRC	869	Hebei Changtong	Office	Office	20 September 2011 to 19 September 2013	317,000
3.	A parcel of land and 4 buildings located at Yangling Village Eastern Songying Town Hight-tech and Economy Development Zone Shijiazhuang City Hebei Province The PRC	1,455.15	Hebei Changtong	Production	Storage and staff dormitory	20 June 2010 to 19 June 2014	65,000
4.	Unit 1401 on Level 14 of Block A of China International Science and Technology Exhibition Center No. 12, Yumin Road Chaoyang District Beijing The PRC	583.64	Beijing U-Ton	Commercial	Office	12 December 2011 to 11 December 2013	781,815
5.	Unit 419 on Level 4 of Yansha Shengshi Plaza No. 23, North 3rd Ring Middle Road Xicheng District Beijing The PRC	448.81	Beijing U-Ton	Office	Office	10 March, 2011 to 9 March 2014	769,933.56
6.	Unit A129 on Level 6 of Golden Resources Mall No. 1, Yuanda Road Haidian District Beijing The PRC	46	Beijing U-Ton	Commercial	Office	13 April 2012 to 12 April 2013	10,000

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No.	Description/Location	Gross Floor Area <i>(sq.m.)</i>	Occupied by	Nature of Building	Existing Usage	Lease Term <i>(year)</i>	Annual Rent <i>(RMB)</i>
7.	Unit A-601 on Level 6, Block A of Dashimen Business Centre No. 108, Donggang Road Shijiazhuang City Hebei Province The PRC	366.76	Shijiazhuang Qiushi	Commercial	Office	1 February 2008 to 31 January 2014	73,500
8.	Unit 103 on Level 1 of an office building No. 465, Huaibei Road Shijiazhuang City Hebei Province The PRC	80	Hebei Deer	Office	Office	10 February 2012 to 19 September 2013	29,200
Total:		<u>4,061.36</u>					<u>2,086,448.56</u>

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

Out of these eight leased properties, two properties with an aggregate gross floor area of approximately 1,821.91 sq.m. are subject to certain risks as the relevant landlords had not provided us with the relevant title certifications. As advised by Commerce & Finance, if the lessor does not have the right to lease out the relevant property, the lease agreement may be subject to invalidation. Hence, we may face the risk of lease discontinuation and may need to relocate. If we cannot find a suitable location with acceptable terms, our operations may be adversely affected. Our Directors are of the view that the aforesaid leased properties are not crucial to our business, and we can easily find alternative premises. We estimate that, in the event that we have to relocate the aforesaid leased properties, the expenses arising from relocation would be less than RMB0.2 million in total which shall comprise rental deposits, renovation and transportation fees.

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

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

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### LEGAL PROCEEDINGS

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

#### **Monetary claim against third party**

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

#### **Personal injury lawsuit against our Group**

On 1 September 2009, a worker of one of our subcontractors who had suffered personal injuries at our site, filed an application to the Shijiazhuang Labour Dispute Arbitration Committee ("**Committee**"), requesting for an adjudication of the existence of an employment relationship between himself and our subsidiary, Hebei Changtong. The applicant, Wang Gengshen, was hired by our subcontractor, Hengshui Yijiacaihui Limited to work for a project of Hebei Changtong. The only labour agreement was executed between the applicant and the subcontractor. On 8 November 2008, the applicant fell off a ladder during construction. The medical expenses amounting to approximately RMB0.03 million were paid by Hebei Changtong. The applicant sought to establish an employment relationship between Hebei Changtong and himself, so that Hebei Changtong would be responsible for his injuries. The Committee ruled that given the subcontractor, Hengshui Yijiacaihui Limited, did not have a valid business licence at the time when it signed the labour agreement with the applicant, the labour agreement between the two parties was invalid. Since the applicant was working for the project of Hebei Changtong and the accident occurred at the site of Hebei Changtong, Hebei Changtong should accordingly assume the responsibilities as an employer. The Committee's ruling was upheld by the Shijiazhuang Changan District People's Court and the Hebei Shijiazhuang Intermediate People's Court. On 19 August 2011, Shijiazhuang City Bureau of Human Resources and Social Security issued a "Work-related Injuries Decision" ([2011] No. 703 issued by Human Resources and Social Security of Shijiazhuang), and such decision identified the injuries that Mr. Wang Gengshen suffered when he was rendering deployment services at China Mobile Communications Corporation Jinzhou Branch on 8 November 2008 as work-related injuries. On 10 October 2011, Hebei Changtong filed an administrative proceedings to Shijiazhuang Changan People's Court in which Shijiazhuang City Bureau of Human Resources and Social Security as the defendant and Mr. Wang Gengshen as the third party, in which Hebei Changtong seek to invalidate the aforementioned "Work-related Injuries Decision" ([2011] No. 703 issued by Human Resources and Social Security of Shijiazhuang) and order the defendant to re-issue a decision that the third party's injuries are not work-related injuries. The Shijiazhuang Changan District People's Court accepted the case on 20 October 2011 and made an

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## BUSINESS

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“Administrative Judgment” ([2011] Changxingchuzi No. 94) on 21 December 2011 to sustain the “Work-related Injuries Decision” issued on 19 August 2011. On 9 January 2012, Hebei Changtong filed an appeal with the Hebei Shijiazhuang Intermediate People’s Court and sought to rescind and amend the Administrative Judgment and Hebei Shijiazhuang Intermediate People’s Court dismissed the appeal and upheld the “Administrative Judgment” on 20 April 2012, which is final and binding upon Hebei Changtong. On 23 May 2012, Mr. Wang Gengshen made an application to the Committee, requesting for an adjudication of total damages of RMB1.39 million (which had net-off the medical expenses of approximately RMB0.03 million paid by Hebei Changtong). As at the Latest Practicable Date, the Committee had yet to make any ruling on the amount of the claim.

As advised by Commerce & Finance, the final amount of claim against us shall be determined by the Committee. In the event that Hebei Changtong and Mr. Wang Gengshen do not agree with such amount determined by the Committee, both parties can file appeal to the Shijiazhuang Changan District People’s Court, having jurisdiction over the dispute, which will then determine the final amount of claim against us. Although the final amount of claim will be determined by the Committee or relevant competent People’s Court, pursuant to the “Compensation for Work-related Injury Opinion” ([2004] No. 95 issued by Labour Department of Hebei Province) (《關於農民工參加工傷保險有關問題的意見》(冀勞社[2004]95號)) and the “Notice on Adjustment to Long-term Treatment Regarding Compensation for Work-related Injury ” ([2007] No. 59 issued by Labour Department of Hebei Province) (《關於調整農民工一次性享受工傷保險長期待遇標準有關問題的通知》(冀勞社[2007]59號)) (collectively referred as the “Notice”), compensation payable for incapacity results from a work injury varies with the worker’s age, average monthly earnings and loss of earning capacity proportionately caused by the injury. Based on the Notice, the Directors estimate that the amount of claim is approximately RMB450,000. Accordingly, we made a provision of approximately RMB450,000 for the potential claim during the year ended 31 December 2011. The Directors confirm that, save as the above, there was no significant accident happened during the provision of deployment services since the beginning of the Group’s operations.

### LABOUR, HEALTH AND SAFETY MATTERS

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

### SOCIAL SECURITY CONTRIBUTION

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

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

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### ENVIRONMENTAL PROTECTION

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

### INSURANCE

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

### LEGAL COMPLIANCE

Commerce & Finance, confirmed that each of the PRC subsidiaries of our Company has obtained all the necessary governmental authorisations, approvals and certificates under PRC laws and regulations to conduct its business. As at the Latest Practicable Date, such authorisations, approvals and certificates have not been revoked.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately after completion of the Placing (assuming that the Over-allotment Option is not exercised), Bright Warm, which is wholly owned by Mr. Jiang beneficially will, effectively hold 60% of the total issued share capital of our Company (assuming the Over-allotment Options are not exercised). Mr. Jiang, being the largest Shareholder, has confirmed that he was brought up in the PRC and has lived in the PRC for a substantial period of time. For more details of the background of Mr. Jiang, please see the information set forth in the section headed “Directors, senior management and staff — Directors” in this prospectus.

Apart from the equity interests in our Company and members of our Group, Mr. Jiang also held interest in the following company as at the Latest Practicable Date:

Name of company	Place of establishment	Principal business	Shareholding	Board of directors
Believe Power	BVI	Dormant	Mr. Jiang: 42.63%; Mr. Li: 38.97%; Mr. Du: 18.40%	Mr. Jiang; Mr. Li; Mr. Du

As the above company is dormant, our Directors are of the view that there is no competition between our Company and the above company owned by the Controlling Shareholders.

Save as disclosed in this prospectus, none of our executive Directors, our Controlling Shareholders or their respective associates are engaged in any business that, directly or indirectly, competes or may compete with the business of our Group.

### Non-competition undertaking

Pursuant to a deed of non-competition undertaking entered into by the Controlling Shareholders (being Bright Warm and Mr. Jiang) and Ms. Guo in favour of the Company and a deed of non-competition undertaking entered into by the Substantial Shareholders (being Ordillia and Mr. Li) in favour of the Company (each individually, a “**Deed of Non-competition**” and collectively, the “**Deeds of Non-competition**”), each of Bright Warm, Mr. Jiang, Ms. Guo, Ordillia and Mr. Li (collectively, the “**Covenantors**”) has undertaken, subject to the exceptions mentioned below, that he/she/it would not, and would procure that neither his/her/its associate nor companies controlled by him/her/it (other than our Group) directly or indirectly be interested in or engaged in any business which competes or is likely to compete directly or indirectly with our Group’s business as set out in this prospectus, in the PRC and any other area in which our Group carries on business (the “**Restricted Activity**”).

The aforesaid undertakings do not apply with respect to the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a recognised stock exchange and:

- (a) the total number of the shares held by the relevant Covenantor(s) or their associates does not amount to more than 5% of the issued shares of the company; and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (b) the relevant Covenantor(s) or their associates are not entitled to appoint a majority of the directors or management of that company.

The non-competition undertaking and the rights and obligations there under are subject to and conditional upon the Placing becoming unconditional as specified under the section head “Structure and conditions of the Placing” in this prospectus.

The obligation of the Covenantors under the Deeds of Non-competition will remain in effect until:

- (a) the date on which the Shares cease to be listed on the Stock Exchange; or
- (b) the date on which the relevant Covenantor(s) and their associates cease to own 5% or more of the then issued share capital of the Company directly or indirectly whichever occurs first.

Each of the Covenantors undertakes to our Company that he/she/it would, during the term of the relevant Deed of Non-competition indemnify and keep indemnified our Company and our Group against any loss suffered by our Company or our Group (as relevant) arising out of any breach of his/her/its undertaking under the relevant Deed of Non-competition.

### **Independence of management, financing and operations**

Having considered the following factors, our Directors are satisfied that our Group will be able to be operationally and financially independent from the Controlling Shareholders and their associates:

Non-competition — none of the Controlling Shareholders or our Directors has any interest in a business which competes or is likely to compete, either directly or indirectly, with our Group’s business. In addition, each of the Controlling Shareholders has given a non-competition undertaking in favor of us. For details, please refer to the section headed “Relationship with Controlling Shareholders — Non-competition undertaking” in this prospectus.

Management independence — Our Board comprises three executive Directors and three independent non-executive Directors. Despite the interest of the Covenantors in certain companies outside our Group, we consider that our Board will function independently from the Covenantors because:

- (a) each Director is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions; and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (c) our board comprises six Directors and three of them are independent non-executive Directors, which represents more than one-third of the members of the Board. This is in line with or better than current governance best practice in Hong Kong.

Financial independence — Our Group has an independent financial system and makes financial decisions according to its own business needs. As at 31 December 2010, approximately RMB16.6 million was owed by our Group to Mr. Jiang, Ms. Guo, Ms. Jiang Ling (a sister of Mr. Jiang), Hebei Deyuan Tube Manufacturing Company Limited (河北德源管業製造有限公司) (“**Hebei Deyuan**”) and Mr. Li. As at 31 December 2011, approximately RMB39.1 million was owed by our Group to Mr. Jiang, Ms. Guo, Hebei Xinhua, Hebei Ruihui, Mr. Li, Ms. Ren, and Ordillia. Out of the outstanding sums owed to them, the amounts due to Mr. Jiang and Ms. Guo of RMB20.0 million in aggregate will be waived by such related parties prior to Listing and the remaining outstanding balance of RMB19.1 million were settled before the Latest Practicable Date. Moreover, our Directors also confirm that, as at the Latest Practicable Date, all guarantees provided by our Controlling Shareholders to secure bank loans or other borrowings by us were released. In the circumstances, we believe we are capable of obtaining financing from third parties without reliance on the Controlling Shareholders.

Operational independence — During the Track Record Period, certain technologies covered by the scope of various patents held by Ms. Guo had been used by us in our operations. We have not entered into any agreement with Ms. Guo in respect of the usage of such patents prior to the transfer. Nevertheless, Ms. Guo has undertaken to us (i) to provide these patents for our use exclusively; and (ii) that our Group will not be required to make any payment for the use of these patents. Such patents have been assigned to us at nil consideration in August 2011 and the registration of the transfer was completed with the State Intellectual Property Office of the PRC as at the Latest Practicable Date. For further details, please refer to the section headed “Further information about the business of our Group — Intellectual property rights of our Group” in Appendix IV to this prospectus.

Save as to the above, we do not use any intellectual properties rights held by our Controlling Shareholders and Directors in the course of our operations. In addition, our Group has an independent work force to carry out our operations and has not shared its operation team with the Controlling Shareholders’ businesses outside our Group. Although during the Track Record Period, there have been certain transactions between us and our related parties (*Notes*), details of which are set out in note 30 to the Accountant’s Report, our Directors have confirmed that these related party transactions were conducted on fair and reasonable and normal commercial terms. None of the historical related party transactions with the connected persons as defined in the GEM Listing Rules are expected to continue and constitute non-exempt connected transactions after the Listing.

*Notes:*

The particulars of business entities (except Bright Warm, Ordillia, Believe Power, Boom World, Plansmart and Hebei Deer) which are related parties set out in note 30 to the Accountants’ Report are set out below:-

1. **Hebei Deyuan**

Hebei Deyuan is a limited liability company established on 7 June 2006 in accordance with the laws of the PRC. Mr. Jiang was the founder and owned the entire equity in Hebei Deyuan at the time of establishment and, upon various disposals of equity interests, ceased to be a shareholder of Hebei Deyuan in March 2011. Hebei Deyuan is currently owned as to 80% and 20% by an Independent Third Party and a daughter of Mr. Jiang, respectively, and principally engages in the business of manufacturing of plastic pipes for agricultural, drainage and telecommunication uses, etc.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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2. **Hebei Qianyuan Communication Equipment Company Limited** (河北乾源通信設備有限公司) (“**Hebei Qianyuan**”)

Hebei Qianyuan is a limited liability company established on 4 March 2010 in accordance with the laws of the PRC. Mr. Jiang and Ms. Guo were the founders and owned as to 55% and 45% of the equity interests in Hebei Qianyuan, respectively, at the time of establishment and subsequently disposed their equity interests in January 2011. Hebei Qianyuan is currently owned by Independent Third Parties and principally engages in the business of manufacturing and sales of telecommunication equipment.

3. **Hebei Yongchang Electricity Engineering Co., Ltd.** (河北永昌電力工程有限公司) (“**Hebei Yongchang**”)

Hebei Yongchang is a limited liability company established on 15 January 2007 in accordance with the laws of the PRC and controlled by a former shareholder of Hebei Changtong (who is also our employee until December 2008) during the Track Record Period. Hebei Yongchang principally engages in the business of provision of deployment services of electricity wires and ancillary facilities.

4. **Hengshui Qianyuan Real Estate Development Company Limited** (衡水乾源房地產開發有限公司) (“**Hengshui Qianyuan**”)

Hengshui Qianyuan is a limited liability company established on 22 July 2004 in accordance with the laws of the PRC and controlled by Ms. Jiang Ling (a sister of Mr. Jiang) during the Track Record Period prior to dissolution in January 2011. Hengshui Qianyuan principally engaged in the business of real estate development prior to dissolution.

5. **Shijiazhuang Yu Hua Ai Mei Mei Ju Furniture Distribution Centre** (石家莊市裕華區艾美美居傢俱銷售中心) (“**Shijiazhuang Yuhua**”)

Shijiazhuang Yuhua is a privately or individually owned business entity established in March 2009 in accordance with the laws of the PRC and wholly owned by Ms. Ren since establishment. Shijiazhuang Yuhua principally engages in the business of sales of furniture.

6. **Hebei Ruihui**

Hebei Ruihui is a limited liability company established on 6 February 2009 in accordance with the laws of the PRC and owned as to 65% and 35% by Mr. Du and Mr. Zhang since establishment. Hebei Ruihui principally engages in the business of manufacturing and sales of glass products.

7. **Hebei Xinhua**

Hebei Xinhua is a limited liability company established on 21 September 1999 in accordance with the laws of the PRC and controlled by Mr. Du during the Track Record Period. Hebei Xinhua principally engages in the business of processing and sales of cashmere wool products.

## CONNECTED TRANSACTIONS

We have not entered into any transactions with our connected persons which will continue following the Listing and which will constitute non-exempt continuing connected transactions within the meaning of the GEM Listing Rules.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### DIRECTORS

#### Executive Directors

**Mr. Jiang Changqing (姜長青)**, aged 47, is our founder, chairman, and was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012. He joined Hebei Changtong as a director since its incorporation in June 2000 and joined Beijing U-Ton in July 2010 when he was firstly appointed as the manager, and has been appointed as the director of Beijing U-Ton since April 2011 and has been primarily responsible for overall corporate strategies, planning, management and business development of our Group. Mr. Jiang was a director of Hebei Deer between April 2005 and October 2010 and a director of Partnerfield since December 2010. Mr. Jiang has approximately 20 years' working experience in the telecommunications industry specialising in optical fiber deployment technology and has over five years' experience in in-sewer deployment methods such as in-sewer, pipe jacking and cable troughing which utilise micro-ducts, mini-cables and related techniques. Prior to the establishment of our Group, Mr. Jiang worked at Hengshui Technology Intelligence Office (衡水科技情報所) from March 1998 to June 2000 responsible for the management of the operations. Mr. Jiang worked in a department of People's Liberation Army of the PRC from October 1981 to June 1993 and was mainly responsible for coaching telecommunication equipment maintenance and construction. Mr. Jiang obtained a diploma in law through self-studying from the Hebei University (河北大學) in June 1996. Mr. Jiang did not hold any other directorships in listed companies in the three years prior to the Latest Practicable Date.

**Ms. Guo Aru (郭阿茹)**, aged 46, is the spouse of Mr. Jiang. Ms. Guo was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is primarily responsible for the research and development of new equipment and technology for our Group. Ms. Guo joined our Group as a manager in 2007. Ms. Guo was a director of Beijing U-Ton between July 2010 and April 2011 and a director of Partnerfield since December 2010. From July 1986 to September 2006, Ms. Guo worked as a mathematics teacher in No. 4 and No. 7 Middle School of Hengshui City in Hebei Province. Ms. Guo is certified as a senior communications engineer (通信高級工程師) by Gansu Province Title Reform Organisation (甘肅省職稱改革工作小組) in November 2008. Ms. Guo obtained a diploma in mathematics from the Hengshui University (衡水學院) in July 1986. Through self-studying and with the support of Mr. Jiang, Ms. Guo has invented several connectors for the purposes of protecting optical fibers, of which seven were granted patents in the PRC and are being transferred to our Group (please see the section headed "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix IV to this prospectus for further details about such patents). Ms. Guo did not hold any other directorships in listed companies in the three years prior to the Latest Practicable Date.

**Mr. Li Qingli (李慶利)**, aged 43, was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is mainly responsible for the management of the low-voltage equipment integration services of our Group. Mr. Li has been a director of Shijiazhuang Qiushi and has been responsible for its daily operations and management since its incorporation in March 1999. Mr. Li has been a director of Hebei Deer since its incorporation in October 2003 and a director of Partnerfield since September 2005. Mr. Li worked at Shijiazhuang Changan Xunbo Telecommunication Equipment Operation Office (石家莊市長安迅波通信器材經營處) from March 1994 to March 1999. Mr. Li worked as an external welfare officer at Plant 4511 (4511廠) from September 1991 to March 1994. Mr. Li obtained a diploma in wireless construction from the Guilin University of Electronic Technology (桂林電子科技大學) (formerly known as Guilin Institute of Electronic Technology (桂林電子工業學院)) in June 1991. Mr. Li obtained a Qualification

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Certificate of Junior Professional Rank (初級專業技術職務任職) from The Title Reform Leading Group Office of Shijiazhuang (石家莊職稱改革領導小組辦公室) in December 1994 qualifying him as an assistant engineer specialising in electrons. Mr. Li did not hold any other directorships in listed companies in the three years prior to the Latest Practicable Date.

### Independent non-executive Directors

**Mr. Meng Fanlin (孟繁林)**, aged 67, was appointed as our independent non-executive Director on 27 May 2012. Prior to joining our Group, Mr. Meng worked for China Mobile Communications Corporation's Hebei branch Qinhuangdao office (河北移動通信秦皇島分公司) as a senior consultant from December 2003 to January 2005 and as a general manager from July 1999 to December 2003. Mr. Meng had also worked for China Telecom Group's Langfang city telecommunication office (中國電信廊坊市電信局) as the director from November 1998 to July 1999. Mr. Meng had worked for Post and Telecommunication Administration of Hebei Qinhuangdao (秦皇島市郵電局) as vice head and acting head from September 1983 to October 1998 and was primarily responsible for production management, and as the head of the telecommunication department from October 1980 to February 1983 and was a technician from July 1966 to September 1980. Mr. Meng obtained a bachelor's degree in local telecommunications (市內電話通信) from Jilin University (吉林大學) (formerly known as Changchun Post and Telecommunication Institute (長春郵電學院)) in July 1966. Mr. Meng did not hold any directorships in listed companies in the three years prior to the Latest Practicable Date.

**Mr. Wang Haiyu (王海玉)**, aged 59, was appointed as our independent non-executive Director on 27 May 2012. Mr. Wang is a registered qualification certificate constructor (中華人民共和國一級建造師) by Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) with profession in signal communication, a senior engineer (高級工程師) and telecommunication and national bid evaluation expert (通信建設評標專家) by the Ministry of Information Industry. Mr. Wang had worked for Fifth Construction Bureau of China International Telecommunication Construction Corporation ("CITCC") (中國通信建設集團有限公司第五工程局) which does not have any current or prior relationship with our Group, as the bureau's chief from November 2007 to March 2011. Mr. Wang had also worked as a general manager of the engineering department of CITCC from February 2006 to November 2007 and as the head of the engineering and marketing department of CITCC from September 2001 to February 2006. Mr. Wang had also worked for Second Construction Bureau of CITCC (中國通信建設集團有限公司第二工程局) as a senior engineer, department head and assistant of bureau chief from February 1978 to December 2000. Mr. Wang received his bachelor's degree in telecommunications from the Nanjing University of Posts and Telecommunications (南京郵電大學) in 1978.

Mr. Wang is currently working for the Fifth Construction Bureau of CITCC as a senior consultant. As confirmed by Mr. Wang and the said company the position is an honorary role and Mr. Wang is not engaging in any daily business operation activities or decision making in CITCC. Mr. Wang did not hold any directorships in listed companies in the three years prior to the Latest Practicable Date.

**Ms. Li Xiaohui (李曉慧)**, aged 44, was appointed as our independent non-executive Director on 27 May 2012. Ms. Li is a Certified Public Accountant in China and is a non-practising member of the Chinese Institute of Certified Public Accountants. Ms. Li has been a lecturer since 2004 and the vice dean since July 2006 of the department of accountancy of the Central University of Finance and Economics (中央財經大學). Ms. Li had worked for the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) from July 2001 to August 2003 with the responsibilities of

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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researching and formulating independent auditing principles. From 1999 to 2004, Ms. Li wrote books and other publications in relation to auditing, accounting and risk management. Ms. Li had also worked for the Hebei Province Finance Department (河北省財政廳) from January 1997 to August 1998. Ms. Li had worked at Canshi Certified Public Accountants (滄獅會計師事務所) as a partner from August 1996 to January 1997 and Canzhou Certified Public Accountants (滄洲會計師事務所) as an external affairs manager from April 1993 to July 1996. Ms. Li is a member of the Technical Consultation Committee (技術指導委員會) of the Chinese Institute of Certified Public Accountants, the Professional Supervision Committee (監督專業委員會) of the Accounting Society of China (中國會計學會), the CERM (China) Committee of the Asia Association of Risk and Crisis Management (“AARCM”) (亞洲風險與危機管理協會), a certified senior enterprise risk manager by AARCM, and the Practice Guidance Committee (執業指導委員會) of the Beijing Institute of Certified Public Accountants (北京註冊會計師協會). Ms. Li obtained her bachelor’s degree in economics from Yangzhou University (揚州大學) (formerly known as Yangzhou Normal Institute (揚州師範學院)) in June 1989. Ms. Li obtained her master’s degree in economics from Renmin University of China (中國人民大學) in January 1993. Ms. Li was awarded the degree of Doctor of Economy by the Central University of Finance and Economics (中央財經大學) in July 2001. As at the Latest Practicable Date, Ms. Li is an independent non-executive director of China Titans Energy Technology Group Co., Limited, a company listed on the Stock Exchange (stock code: 2188), an independent director of Beijing Orient National Communication Science Technology Co., Limited, a company listed on Shenzhen Stock Exchange (stock code: 300166), independent director of Jiangsu Welle Environmental Co., Limited, a company listed on Shenzhen Stock Exchange (stock code: 300190), independent director of Kailuan Energy Chemical Co., Limited, a company listed on Shanghai Stock Exchange (stock code: 600997). Save as disclosed above, Ms. Li did not hold any directorships in listed companies in the three years prior to the Latest Practicable Date.

Save as disclosed in this prospectus, as at the Latest Practicable Date, there was no other matter that needed to be brought to the attention of the investors and the Stock Exchange and there was no information required to be disclosed under Rule 17.50(2) of the GEM Listing Rules in relation to the appointment of any of the Directors.

### SENIOR MANAGEMENT

**Mr. Dong Baoyi (董寶義)**, aged 64, was appointed as our technical director in November 2006 and was promoted as our chief technical officer in March 2011 and is mainly responsible for technology development and management of our Group. Mr. Dong worked for China Netcom’s Tangshan branch as an assistant manager from March 2005 to November 2006 and was primarily responsible for management assistance. Mr. Dong had worked for the Post and Telecommunication Administration of Tangshan city (唐山市郵電局) as a vice department head of long-distance machinery department (長遠機械科), vice manager and manager of telecommunication department from April 1981 to March 2005 and was primarily responsible for telecommunication equipment management and monitoring of its maintenance and repair. Mr. Dong worked for the local telecommunication bureau in Xingyi City, Guizhou Province, as a technician from December 1968 to March 1981 and was primarily responsible for telecommunication equipment maintenance and repair. Mr. Dong obtained a diploma in telecommunication enterprise and power source facilities (電信企業動力和電源設備) from Shijiazhuang Post and Telecommunication School (石家莊郵電學校) in July 1968 and obtained a diploma in economic management (經濟管理) through distance learning from the Hebei Provincial Committee Party School of Correspondence Education (河北省委黨校函授學院) in July 2005. Mr. Dong did not hold any directorships in listed companies in the three years prior to the Latest Practicable Date.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Ms. Chen Jimin (陳繼敏)**, aged 38, has been the vice general manager since November 2010 and is primarily responsible for matters of our Group's investment, finance and external relationship. Ms. Chen had worked for Hebei Guofu Agricultural Investment Group Limited (河北省國富農業投資集團有限公司) for its financial department, warranty department, agricultural investment department and investment management department from July 1996 to May 2006 and its subsidiary, Guofu (Hong Kong) Holdings Limited (國富(香港)控股有限公司), for its asset management department from May 2006 to October 2010. Ms. Chen had also worked for Longyaozhongwang Food Limited (隆堯中旺食品有限公司) as its chief financial officer and had been primarily responsible for financial management and monitoring from October 2008 to October 2010. Ms. Chen had also worked for Great Desire International Limited (宏望國際有限公司) as its chief financial officer and had been primarily responsible for financial management and operations from June 2009 to October 2010. Ms. Chen was awarded the designation of a Fellow Chartered Financial Practitioner by the Asia Pacific Financial Services Association in February 2008 and obtained the qualification of an Accredited Financial Planner from the American Association for the Certification of Training Program in April 2008. Ms. Chen obtained a diploma in computerised accounting and statistics in June 1996 from the Northwest Normal University (西北師範大學) and a diploma from the Advanced Course for Financial Planners (財務策劃師高級研究班) organised by the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in August 2008. Ms. Chen did not hold any directorships in listed companies in the three years prior to the Latest Practicable Date.

**Mr. Pang Chun Kit (彭俊傑)**, aged 39, was appointed as our chief financial officer on 1 May 2011 and company secretary on 27 May 2012 and is primarily responsible for the financial management and company secretarial work of our Group. Mr. Pang is a member of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) and Association of Chartered Certified Accountants. Mr. Pang had worked for China Grand Forestry Green Resources Group Limited, a company listed on the Stock Exchange (stock code: 0910), as its chief financial officer from February 2007 to December 2010, company secretary from September 2010 to December 2010, and executive director from January 2009 to August 2011. Mr. Pang had also worked for Lingbao Gold Company Ltd, a company listed on the Stock Exchange (stock code: 3330) as a chief financial officer, qualified accountant and joint company secretary from June 2005 to March 2007. Mr. Pang had also worked for Deloitte Touche Tohmatsu and Lawrence T. Lau and Company as an auditor from September 1997 to June 2005. Mr. Pang was a former audit manager of Deloitte Touche Tohmatsu. Mr. Pang received his bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 1997. Save as disclosed above, Mr. Pang did not hold any directorship in listed companies in the three years prior to the Latest Practicable Date.

**Mr. Du Yanhua (杜延華)**, aged 41, was appointed as vice general manager of our Group in March 2011 and is primarily responsible for marketing and business expanding. Mr. Du was a director of Hebei Deer between October 2005 and May 2011. Mr. Du was a director of Hebei Xinhua from September 2005 to January 2011 and was primarily responsible for the company's decision making, operations, management and budget planning. Mr. Du obtained a diploma in economic management (經濟管理) through self-studying from the School of Correspondence Education of the Party School of Central Committee of the Communist Party of China (中共中央黨校函授學院) in December 2000. Mr. Du did not hold any directorships in listed companies in the three years prior to the Latest Practicable Date.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### COMPANY SECRETARY

**Mr. Pang Chun Kit (彭俊傑)** has been the company secretary of our Company since 27 May 2012. His biographical details are set out in the section headed “Directors, senior management and staff — Senior management” in this prospectus.

### COMPLIANCE OFFICER

Mr. Li is the compliance officer of our Company. His biographical details are set out in the section headed “Directors, senior management and staff — Directors” in this prospectus.

### AUDIT COMMITTEE

An audit committee was established by the Board on 27 May 2012 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and approve our Group’s financial reporting process and internal control system. The audit committee consists of three members, namely, Ms. Li Xiaohui, Mr. Meng Fanlin and Mr. Wang Huiyu. Ms. Li Xiaohui is the chairperson of the audit committee.

### REMUNERATION COMMITTEE

A remuneration committee was established by the Board on 27 May 2012 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee of the Board are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of our Group. The remuneration committee consists of three members, namely, Mr. Wang Haiyu, Ms. Li Xiaohui and Mr. Meng Fanlin. Mr. Wang Haiyu is the chairperson of the remuneration committee.

### NOMINATION COMMITTEE

A nomination committee was established by the Board on 27 May 2012 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the nomination committee of the Board are to make recommendations to the Board on the appointment of Directors and senior management of our Group. The nomination committee consists of three members, namely, Mr. Meng Fanlin, Ms. Li Xiaohui and Mr. Wang Haiyu. Mr. Meng Fanlin is the chairperson of the nomination committee.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### COMPENSATION OF DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

During each of the two years ended 31 December 2010 and 2011, the total remuneration (comprising salaries and allowances, discretionary bonuses and pension scheme contributions) and benefits in kind of the Directors were approximately RMB0.1 million and RMB0.4 million, respectively. Our Company reimburses the Directors for expenses which are necessarily and reasonably incurred for providing services to our Group or executing their functions in our Group's operations.

In determining the amount of remuneration of the Directors, the remuneration committee will consider the compensation levels adopted by companies of similar size engaging in similar business. Under arrangements currently in force, the aggregate remuneration of the Directors (including the independent non-executive Directors) payable in respect of the year ending 31 December 2012 is estimated to be approximately RMB1.1 million.

In respect of the Track Record Period, no remuneration was paid to the Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, the Directors or past Directors for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of the Directors has waived any emoluments. Further information about the service agreements entered into between the Company and the Directors is set out in the section headed "Further information about Directors and Shareholders" in Appendix IV to this prospectus.

### EMPLOYEES

The table below set forth the number of our Group's employees by their functions as at 31 December 2011:

Management .....	9
Administration .....	19
Finance, audit and treasury .....	23
Procurement.....	8
Engineering and technical .....	120
Sales and marketing.....	11
Quality control .....	3
<b>Total</b> .....	<b><u>193</u></b>

Our Group has not experienced any strikes or other labour disturbances which have interfered with its operations, and the Directors believe that our Group has positive relations with its employees.

### EMPLOYEES' BENEFITS PROVIDED BY OUR GROUP

Our Group complies in all material aspects with all statutory requirements on retirement contribution in the jurisdictions where we operate.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local PRC Government. In addition, our Group also provides housing allowance to its senior management.

As at the Latest Practicable Date, our Group has only one employee in Hong Kong. Our Group and its Hong Kong employees will contribute to the mandatory provident fund in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) and relevant requirements based on 5% of the relevant income of the relevant employee.

### Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme pursuant to which selected participants may be granted options to subscribe for Shares as incentives or rewards for their services rendered to our Group. A summary of the principal terms of the Share Option Scheme is set out in the section headed “Other information — Share Option Scheme” in Appendix IV to this prospectus.

### COMPLIANCE ADVISER

Our Company intends to appoint Guotai Junan Capital Limited as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. The material terms of the compliance adviser agreement to be entered into by our Company with Guotai Junan Capital Limited include the following:

1. the compliance adviser for the purpose of Rule 6A.19 of the GEM Listing Rules will be appointed for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full year commencing after the Listing Date, that is, 31 December 2014, or until the agreement is terminated, whichever is the earlier; and
2. pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:
  - (a) before the publication of any regulatory announcement, circular or financial report;
  - (b) where a transaction, which might be a notifiable or connected transaction under the GEM Listing Rules, is contemplated including share issues and share repurchases;
  - (c) where our Company proposes to use the proceeds of the placing 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; and
  - (d) where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules.



## INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue (but without taking into account Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or will 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 members of our Group other than our Company:

Name of shareholder	Name of Group member	Capacity/ nature of interest	Number and class of securities <i>(Note 1)</i>	Approximate percentage of shareholding
Bright Warm <i>(Note 2)</i>	Our Company	Beneficial owner	1,008,000,000 Shares (L)	60%
Mr. Jiang <i>(Note 2)</i>	Our Company	Interest of a controlled corporation	1,008,000,000 Shares (L)	60%
Ms. Guo <i>(Note 3)</i>	Our Company	Family	1,008,000,000 Shares (L)	60%
Ordillia <i>(Note 4)</i>	Our Company	Beneficial owner	252,000,000 Shares (L)	15%
Mr. Li <i>(Note 4)</i>	Our Company	Interest of a controlled corporation	252,000,000 Shares (L)	15%
Ms. Ren <i>(Note 5)</i>	Our Company	Family	252,000,000 Shares (L)	15%

*Notes:*

1. The letter “L” denotes the person’s long position in the shares of our Company or the relevant Group member.
2. Bright Warm is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Jiang, one of the Controlling Shareholders and executive Directors. Therefore Mr. Jiang is also deemed to have the interest owned by Bright Warm.
3. Ms. Guo is the spouse of Mr. Jiang. Therefore, Ms. Guo is deemed, or taken to be interested in the 1,008,000,000 Shares which Mr. Jiang is interested in for the purpose of the SFO.
4. Ordillia is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Li, one of the Substantial Shareholders and executive Directors. Therefore Mr. Li is also deemed to have the interest owned by Ordillia.
5. Ms. Ren is the spouse of Mr. Li. Therefore, Ms. Ren is deemed, or taken to be interested in the 252,000,000 Shares which Mr. Li is interested in for the purpose of the SFO.

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## INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

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For details our Directors' interests in our Shares immediately following the completion of the Placing, please refer to the section headed "Further information about Directors and Shareholders — Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and our associated corporations" in Appendix IV to this prospectus.

Save as disclosed herein, our Directors are not aware of any persons (who are not Directors or chief executive of our Company) who will, immediately following completion of the Placing and the Capitalisation Issue (but without taking into account Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or will 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 members of our Group other than our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## SHARE CAPITAL

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### SHARE CAPITAL

The share capital of our Company immediately after completion of the Capitalisation Issue and the Placing is set out in the table below. The table is prepared on the basis of the Capitalisation Issue and the Placing becoming unconditional and the issue of Placing Shares pursuant thereto is made as described herein. It takes no account of (a) any new Shares which may be allotted and issued upon the exercise of the Over-allotment Option; (b) any new Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme; and (c) any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to Directors as referred to below or otherwise.

HK\$

*Authorised share capital:*

<u>4,000,000,000</u> Shares	<u>400,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid*

1,000 Shares in issue as at the date of this prospectus	100
1,259,999,000 Shares to be issued pursuant to the Capitalisation Issue	125,999,900
<u>420,000,000</u> Placing Shares to be issued pursuant to the Placing	<u>42,000,000</u>

*Total*

<u>1,680,000,000</u> Shares	<u>168,000,000</u>
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### Minimum public float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. The 420,000,000 Placing Shares represent 25% of the issued share capital of our Company upon the Listing.

### Ranking

The Placing Shares will rank pari passu in all respects with all other Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlements under the Capitalisation Issue.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the major terms of which are set out in the section headed “Other information — Share Option Scheme” in Appendix IV to this prospectus. No option has been granted under the Share Option Scheme.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Placing (excluding Shares which may be allotted and issued pursuant to the exercise of options granted or to be granted under the Share Option Scheme); and
- (b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or options granted or to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The general mandate will remain in effect until:

- (a) the conclusion of the next annual general meeting of our Company; or
- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by the Articles or any applicable law of the Cayman Islands; or
- (c) the time when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever occurs the earliest.

Further information on this general mandate is set out in the section headed "Further information about our Company — Resolutions in writing of all Shareholders passed on 27 May 2012" in Appendix IV to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue following the completion of the Capitalisation Issue and the Placing (excluding Shares which may be allotted and issued pursuant to the exercise of the options granted or to be granted under the Share Option Scheme).

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## SHARE CAPITAL

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This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and such repurchases are made in accordance with all applicable laws and the requirements of GEM Listing Rules.

The general mandate to repurchase Shares will remain in effect until:

- (d) the conclusion of the next annual general meeting of our Company; or
- (e) the expiration of the period within which our Company's next annual general meeting is required to be held by the Articles or any applicable law of the Cayman Islands; or
- (f) the time when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever occurs the earliest.

Further information on this general mandate is set out in the sections headed "Further information about our Company — Resolutions in writing of all Shareholders passed on 27 May 2012" and "Further information about our Company — Securities repurchase mandate" in Appendix IV to this prospectus.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis in conjunction with our Group's audited consolidated financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Group's financial statements have been prepared in accordance with International Financial Reporting Standards. You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of our Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depend on a number of risks and uncertainties over which our Group does not have control. For further information, see the section headed "Risk factors" in this prospectus.*

### OVERVIEW

We are principally engaged in the provision of deployment services of optical fibers in the PRC. Depending on contractual requirements, we use traditional deployment methods and/or micro-ducts and mini-cables system integration methods in our deployment projects of optical fibers. For projects which involve the application of traditional methods only, we will be provided with the optical fibers by clients and have them laid along the designated routes using traditional deployment methods which include direct burial, aerial access, conduit installation and pipe jacking. For projects which require our micro-ducts and mini-cables system integration methods, we will provide our deployment solution including the design of routing of optical fibers, deployment methods to be used, materials to be used including optical fibers, the necessary engineers and manpower to lay the optical fibers, laying services, connection and testing of the optical fibers until completion. Deployment methods used for this kind of projects include a combination of certain deployment methods known as in-sewer, pipe jacking and cable troughing utilising our patented technology in relation to micro-ducts and mini-cables. We also provide maintenance services in respect of optical fiber networks, irrespective of whether or not the deployment works thereof are carried out by us. Our maintenance services mainly cover regular inspection of the deployed cables, repair and re-connection of optical fibers and testing of the signal transmission.

We obtain our projects of deployment of optical fibers mainly by way of tender or direct negotiation. We maintain our own engineering team to carry out technical works such as blowing, pipe jacking, testing and connection. We will, however, recruit temporary workers or engage subcontractors to carry out non-technical works such as excavation, sewer-cleaning, underground installation and overhead installation. Our revenue in respect of the deployment services of optical fibers is generated on a project basis and is recognised using the stage-of-completion method, pursuant to which revenue is recognised ratably over the life of the contract.

We purchase certain materials such as polyethylene and steel wires and provide such materials to manufacturers, who are Independent Third Parties, for the manufacturing of micro-ducts for our deployment services using micro-ducts and mini-cables system integration methods and anti-corrosive steel wires for our deployment services using traditional deployment methods and/or sale to clients.

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## FINANCIAL INFORMATION

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We also purchase certain parts and components such as mini-cables, connectors and reserve boxes for our deployment services using micro-ducts and mini-cables system integration methods. Our purchases are mainly settled in Renminbi and normally have a credit term ranged from payment on delivery to 90 days. We do not enter into any long-term agreement with any of our suppliers.

In order to broaden the revenue stream, we acquired Shijiazhuang Qiushi on 1 March 2011, which enabled us to provide low-voltage equipment integration services to clients such as financial institutions, governmental departments, road and transportation companies, state-owned and private companies in the PRC.

### FINANCIAL IMPACT OF THE REORGANISATION

Our financial results during the Track Record Period primarily reflect the financial results of Hebei Changtong, Beijing U-Ton and Shijiazhuang Qiushi. Since 28 December 2010, we underwent the Reorganisation which included the acquisition of Shijiazhuang Qiushi from Mr. Li and Ms. Ren on 1 March 2011. Accordingly, our consolidated financial statements include the financial results of Shijiazhuang Qiushi beginning on 1 March 2011.

The following table set forth, for the periods indicated, selected financial data of our Group on an actual historical basis as well as Shijiazhuang Qiushi on a stand-alone basis.

	<b>Revenue</b>	<b>Gross profit</b>	<b>(Loss)/profit attributable to the equity holders of the Company</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<b>The Group</b>			
For the year ended 31 December			
2010 .....	51,547	23,332	(1,272)
2011 .....	161,734	75,042	55,381
	<b>Revenue</b>	<b>Gross profit</b>	<b>Profit/(loss) for the year/period</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<b>Shijiazhuang Qiushi</b>			
For the year ended 31 December			
2010 .....	13,448	4,667	3,564
For the two months ended 28 February			
2011 .....	377	182	(61)

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## FINANCIAL INFORMATION

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Our revenue increased by approximately 213.8% from approximately RMB51.5 million for the year ended 31 December 2010 to approximately RMB161.7 million for the year ended 31 December 2011. The increase was mainly attributable to (i) new revenue stream of approximately RMB40.5 million generated from our provision of low-voltage equipment integration services upon acquisition of Shijiazhuang Qiushi on 1 March 2011; and (ii) the increase in revenue derived from construction contracts for deployment of optical fibers by approximately RMB66.8 million from approximately RMB45.8 million for the year ended 31 December 2010 to approximately RMB112.6 million for the year ended 31 December 2011 in relation to projects in Shijiazhuang, Tangshan, Cangzhou, Hengshui, Zhangjiakou, Chengde, Handan and Baoding as a result of geographical expansion of our business.

On the other hand, our revenue generated in the fourth quarter of 2011 increased by approximately RMB70.4 million or approximately 77.1% when compared to the same for the first three quarters of 2011.

We recorded profit attributable to equity holders of the Company of approximately RMB55.4 million for the year ended 31 December 2011, while we recorded loss for the year attributable to equity holders of the Company of approximately RMB1.3 million for the year ended 31 December 2010. Such loss was mainly due to non-recurring restructuring costs of approximately RMB13.7 million as a result of the deemed acquisition of Partnerfield and Hebei Deer (collectively the “**Former Partnerfield Group**”) by Beijing U-Ton on 28 December 2010. The non-recurring restructuring costs principally represent the difference between the consideration paid by Mr. Jiang in acquiring the Former Partnerfield Group and the fair value of the assets and liabilities of the Former Partnerfield Group as at the date of acquisition. The consideration paid by Mr. Jiang amounted to RMB2.0 million comprising cash consideration of approximately RMB0.1 million paid for subscription of Partnerfield’s shares, cash consideration of approximately RMB0.1 million paid to acquire Partnerfield’s shares from the existing shareholders of Partnerfield and the financial impact of approximately RMB1.8 million on dilution of Mr. Jiang’s interests in Beijing U-Ton through the acquisition of Beijing U-Ton by Hebei Deer. As at the date of acquisition, the fair value of the assets and liabilities of the Former Partnerfield Group is net liabilities of approximately RMB11.7 million. Accordingly, restructuring costs of approximately RMB13.7 million were recognised as expenses in the consolidated statements of comprehensive income for the year ended 31 December 2010. For details, please refer to Notes 1 and 33 of the Accountants’ Report set out in Appendix I to this prospectus. In June 2011, Partnerfield entered into agreements with the lenders to settle the above outstanding balances. Pursuant to the agreements, the Group agreed to pay approximately RMB6.2 million to the lenders to discharge all obligations of Partnerfield under the convertible loans and resulted in a gain of approximately RMB6.3 million.

The increase in profit before taxation and profit attributable to equity holders of the Company from approximately RMB16.8 million and RMB12.5 million (excluding the effect of the non-recurring restructuring costs of approximately RMB13.7 million) respectively for the year ended 31 December 2010 to approximately RMB61.0 million and RMB55.4 million respectively for the year ended 31 December 2011 was primarily due to (i) significant increase in revenue as a result of our business expansion and acquisition of Shijiazhuang Qiushi on 1 March 2011; (ii) the non-recurring other gains of approximately RMB7.6 million arising from fair value adjustment on initial recognition of other borrowings of approximately RMB1.3 million and gain on discharge of obligations under convertible loans of approximately RMB6.3 million and (iii) we recorded non-recurring other gains of approximately RMB3.2 million in 2011 mainly as a result of recovery of other receivables of approximately RMB2.7 million which were fully written off in Hebei Deer before the First Acquisition and recovered subsequently in December 2011.



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## FINANCIAL INFORMATION

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### **The performance of our Group subsequent to 31 December 2011**

For each of the two years ended 31 December 2010 and 2011, our revenue amounted to approximately RMB51.5 million and RMB161.7 million, respectively, representing a year-on-year growth rate of approximately 213.8%. Based on the current market situation and the business relationships with our clients, despite our revenue decreased by 26.0% for the four months ended 30 April 2012 as compared to the corresponding period in 2011, our Directors will strive to maintain the revenue of our Group for the year ending 31 December 2012 at a similar level as compared to the same period in 2011, as the amount of backlog to be recognised subsequent to 30 April 2012, based on our projects in progress and projects to be commenced as at the latest practicable date, being 18 May 2012, together with the revenue recognised for the four months ended 30 April 2012, had accounted for approximately 81.5% to the total revenue in 2011. However, certain factors including but not limited to (i) the progress of our projects which may have an impact on our revenue based on the percentage of completion; (ii) any changes in our labour costs and material costs after tendering as a result of changes in governmental policies or economic conditions may increase our costs of services; (iii) our market expansion, by building experimental sections in different locations in order to explore more potential markets, according to our implementation plan which may increase our marketing and distribution expenses; and (iv) any unfavourable change to the preferential income tax treatments currently enjoyed by us which may increase our income tax payable materially, all of such will have an adverse impact on the profitability and financial position of our Group in the future.

During the four months ended 30 April 2012, our revenue decreased by 26.0% as compared to the corresponding period in 2011, which was mainly due to the decrease in revenue derived from our construction contracts revenue and low-voltage equipment integration services.

#### ***Construction contract revenue***

During the four months ended 30 April 2012, our Group had completed 43 projects as compared to 19 projects for the corresponding period in 2011. Based on our unaudited consolidated management accounts for the four months ended 30 April 2012, the revenue recognised for completed projects was approximately RMB8.9 million as compared to approximately RMB7.3 million for the corresponding period in 2011. In addition, our Group had 60 projects in progress during the four months ended 30 April 2012 as compared to 58 projects in progress for the corresponding period in 2011. Based on our unaudited consolidated management accounts for the four months ended 30 April 2012, the revenue recognised for the projects in progress was approximately RMB29.3 million as compared to approximately RMB41.9 million for the corresponding period in 2011. The decrease in revenue, despite the increase in number of completed projects and projects in progress, during the four months ended 30 April 2012 as compared to the corresponding period in 2011 was mainly due to the average project size was smaller and thus resulted in a lower average revenue per project. The revenue derived from construction contracts increased from approximately 83.1% of our total revenue for the four months ended 30 April 2011 to approximately 87.2% of our total revenue for the four months ended 30 April 2012.

#### ***Services income***

There was no material change in the revenue from services income, generated from our provision of the maintenance services in respect of optical fiber networks to the telecommunication operators in the PRC irrespective of whether or not the deployment works thereof are carried out by us, during

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the four months ended 30 April 2012 as compared to the corresponding period in 2011. The revenue derived from services income increased from approximately 2.7% of our total revenue for the four months ended 30 April 2011 to 3.7% of our total revenue for the four months ended 30 April 2012.

### *Sales of goods*

The revenue from sales of goods decreased by 62.7% during the four months ended 30 April 2012 as compared to the corresponding period in 2011, which was mainly due to the reduction in the quantity of anti-corrosive steel wires sold to the clients. The revenue derived from sales of goods decreased from 1.1% of our total revenue for the four months ended 30 April 2011 to 0.5% of our total revenue for the four months ended 30 April 2012.

### *Rental income*

The revenue from rental income increased by 69.2% for the four months ended 30 April 2012 as compared to the corresponding period in 2011. The revenue derived from rental income remained stable which was approximately 0.1% of our total revenue for the four months ended 30 April 2011 and 2012.

### *Low-voltage equipment integration services*

During the four months ended 30 April 2012, our Group had completed 40 projects as compared to 31 projects for the corresponding period in 2011. Based on our unaudited consolidated management accounts for the four months ended 30 April 2012, the revenue recognised for the completed projects was approximately RMB3.7 million as compared to approximately RMB7.7 million for the corresponding period in 2011. In addition, our Group had no project in progress as at 30 April 2011 and 2012. The decrease in revenue in 2012 was mainly due to the average project size was smaller and thus resulted in a lower revenue per project. The revenue derived from low-voltage equipment integration services decreased from 13.0% of our total revenue for the four months ended 30 April 2011 to 8.5% of our total revenue for the four months ended 30 April 2012.

For the number of projects secured by our Group but yet to be commenced as at latest practicable date, being 18 May 2012, please refer to the sections headed “Business — Deployment services of optical fibers — Projects to be commenced” and “Business — Low-voltage equipment integration services — Projects in progress and projects to be commenced” in this prospectus.

### *Gross profit and net profit margins*

Our gross profit margin increased by 15.0% for the four months ended 30 April 2012 as compared to the corresponding period in 2011. The increase in gross profit margin was primarily attributable to the fact that we commenced construction of four projects in early 2012 in Chengde, Zhangjiakou, Hengshui and Handan using micro-ducts and mini-cables system integration methods with aggregate contract amount of RMB26.1 million. We had recognised RMB13.8 million during the four months ended 30 April 2012 based on the stage of completion. These four projects had a relatively higher gross profit margin which resulted in relatively higher gross profit margin during the four months ended 30 April 2012 as compared to the corresponding period in 2011.

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There was no material change in our net profit margin during the four months ended 30 April 2012 as compared to the corresponding period in 2011. The stability in net profit margin was primarily attributable to a higher gross profit margin from several projects using micro-ducts and mini-cables system integration methods which was partially offset by the decrease in contract revenue recognised and the increase in the listing expenses.

### *Other expenses*

Apart from the listing expenses of approximately RMB9.1 million recognised in the consolidated statements of comprehensive income during the year ended 31 December 2011, we expect to incur further expenses in relation to the Placing amounting to approximately RMB7.6 million for the year ending 31 December 2012, of which approximately RMB5.2 million has been recognised in the consolidated statements of comprehensive income for the four months ended 30 April 2012. Our Directors would like to emphasise that the above amount is merely an estimate for reference only, and the final amount to be recognised in the consolidated statements of comprehensive income of our Group for the year ending 31 December 2012 is subject to revisions and finalisations. Save for the abovementioned, our Directors are not aware of any significant non-recurring expenses that would result in any material adverse change in the consolidated statements of comprehensive income of our Group subsequent to 31 December 2011 and up to the Latest Practicable Date.

### **Financial position**

As at 30 April 2012, we had bank balances and cash of approximately RMB35.9 million, representing a decrease of RMB7.9 million from RMB43.8 million as at 31 December 2011, which was used to finance our operations during the four months ended 30 April 2012. As at 30 April 2012, we had net current assets of approximately RMB89.9 million, representing an increase of RMB14.3 million from RMB75.6 million as at 31 December 2011.

As at 30 April 2012, our secured bank borrowings amounted to approximately RMB7.8 million, of which approximately RMB2.8 million was new secured bank borrowings made during the four months ended 30 April 2012 and was mainly used to finance our operations. In addition, during the four months ended 30 April 2012, we obtained new borrowings from Independent Third Parties of approximately RMB19.6 million incurred was used to (i) repay the amounts due to related parties; and (ii) settle part of the listing expenses during the four months ended 30 April 2012. We plan to use approximately HK\$14.3 million from the net proceeds of the Placing to repay part of the other borrowings.

### **FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

Our Directors consider the following factors might have affected our business and historical financial results and may also affect our financial results in the future. The following should be read in conjunction with the sections headed “Risk factors” and “PRC regulatory framework” in this prospectus.

#### **Development of the PRC telecommunication industry**

Our results of operations are subject to the demand from the telecommunication operators in the PRC, which include the Major Telecommunication Operator and other major telecommunication operators being our major clients during the Track Record Period for our deployment services of

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optical fibers. Since our principal business is the provision of deployment services of optical fibers in the PRC and optical fibers is mainly used for data transmission in telecommunication industry, hence our revenue is dependent on the development trend and growth of the telecommunication industry in the PRC. Any changes in the telecommunication industry (e.g technology or regulatory) will affect the demand for our deployment services of optical fibers and therefore our business operations, financial results and hence our financial position will be affected.

### **Reliance on our major clients**

Our results of operations rely substantially on our major clients. During the Track Record Period, our top five largest clients in aggregate accounted for approximately 96.0% and 79.7% of our total revenue. Due to our effort in expanding our client bases, our reliance on our top five largest clients and the Major Telecommunication Operator as our single largest client decreased. However the revenue from our major clients still accounted for a significant portion of our revenue. Our operations and financial results will be adversely affected if there is any decrease or delay in demand for our services from our major clients.

### **Progress of our projects**

For the provision of deployment services of optical fibers, we measure and recognise our revenue based on the stage-of-completion of our projects. Therefore, our revenue recognition and operating cashflow largely depend on the progress of deployment projects of optical fibers, which is affected by various factors, such as the progress of construction and weather conditions.

In addition, pursuant to the stage-of-completion method of accounting, revenues and profits based generally on the progress at the percentage of costs incurred to date to total costs estimated to be incurred for the entire project. Revisions to estimated costs are made when the relevant amounts are known or can be reasonably estimated. Although we use our best efforts to estimate the costs towards completion of our projects under construction, there are inherent uncertainties in the estimating process and hence actual costs may vary materially from estimates.

Our deployment projects of optical fibers may be materially affected by severe weather conditions in areas where we operate and therefore may affect our operations and profitability. This may entail the evacuation of personnel and stoppage of construction. Provision of our services may be suspended during severe weather conditions such as typhoons, heavy rains and snowing. This could adversely affect our financial condition, results of operations and cash flows.

In respect of our low-voltage equipment integration services, upon the project is awarded to us, we would normally enter into a contract with the client setting out the final contract price, scope of work and payment arrangements and we will commence our works within the timeframe as stipulated in the agreement. However, if the works could not be commenced, no revenue will be recognised until the works commence. Therefore, the revenue will be affected if there is any delay in the commencement of any project.

### **Labour costs**

During the Track Record Period, we recruited temporary workers or engaged subcontractors to carry out non-technical works and we have our own engineering team to carry out technical works. Our labour costs were included in the cost of sales/services and amounted to approximately RMB19.4

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million and RMB48.8 million, respectively and accounted for approximately 68.8% and 56.2% of the cost of sales/services for the two years ended 31 December 2010 and 2011, respectively. If there is a significant increase in our labour costs, our cost of sales/services would increase and our profitability would be adversely affected.

### **Material costs**

Our materials for deployment of optical fibers primarily consist of polyethylene, steel wires, mini-cables, connectors, reserve boxes and screw bolts for optical fibers. Our materials for the low-voltage equipment integration services are video conferencing system, projectors, liquid crystal display monitors, card readers and servers. For the two years ended 31 December 2010 and 2011, material costs accounted for 24.1% and 37.9% of our cost of sales/services, respectively. Fluctuations in the prices of materials could affect our gross profit if such increases are not taken into account in the pricing of our services and products.

### **Bidding price**

We obtain our deployment projects of optical fibers mainly by way of tender or direct negotiation. We prepare our tender and quotation based on our estimated project costs (which include labour costs and material costs) plus a mark-up margin. If the quotation set is too high, we may lose the tender to our competitors. Therefore, there is no assurance that we will be able to submit the most competitive bid without affecting our profitability. Although the Budgeting Measures had no material adverse impact on our revenue and profitability during the Track Record Period and the Price Scale has not been revised since its implementation in July 2008 up to the Latest Practicable Date, if there is any adverse change in any of the Price Scale (such as the reduction on the Price Scale) or the Budgeting Measures, we shall take measures on our cost control, such as sourcing subcontractors with lower subcontracting price or when our engineering team can carry out the non-technical works at lower costs than our subcontractors, requiring our engineering team to carry out the non-technical works, to tackle such change. If we cannot take effective measures to tackle such change, the bidding price of our projects and hence our business and financial performance may be adversely affected. Further details of the aforesaid risk are set out in the section headed “Risk factors — Risks related to our Group” in this prospectus.

### **Competition**

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

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### Taxation

Based on the EIT Law and Notice to the EIT Law, other than set out below, the EIT for the Company's subsidiaries established in the PRC was 25%:

- (a) Pursuant to a certificate jointly issued by Beijing Municipal Science and Technology Commission (北京市科學技術委員會), Finance Bureau of Beijing (北京市財政局), Beijing Municipal Office of State Administration of Taxation (北京市國家稅務局) and Beijing Local Taxation Bureau (北京市地方稅務局) dated 14 September 2011, Beijing U-Ton had been designated as an Advanced Technology Enterprise (高新技術企業) and its EIT rate was 15% since 1 January 2010 up to 31 December 2011 and such preferential tax rate is valid up to 31 December 2013. Moreover, Beijing U-Ton was entitled to the two years' exemption from 1 January 2008 to 31 December 2009 pursuant to the Corporate Income Tax Exemption Registration Certificate (企業所得稅減免稅備案登記書) issued on 31 May 2009 by State Administration of Taxation of Haidian District, Beijing, the PRC.
- (b) Pursuant to an approval document issued by the Regional Tax Bureau of Changan District of Shijiazhuang (石家莊市長安區地方稅務局徵收分局), Hebei Changtong is authorised to adopt the authorised method (核定徵收) to calculate its income tax payable. For the two years ended 31 December 2010 and 2011, the income tax payable of Hebei Changtong = taxable income x 25% where taxable income = total revenue of Hebei Changtong x 8% (the taxable income ratio).
- (c) Pursuant to an approval document issued by the Regional Tax Bureau of Yuhua District of Shijiazhuang (石家莊市裕華區地方稅務局), Shijiazhuang Qiushi is authorised to adopt the authorised method (核定徵收) to calculate its income tax payable. For the year ended 31 December 2011, the income tax payable of Shijiazhuang Qiushi = taxable income x 25% where taxable income = total revenue of Shijiazhuang Qiushi x 7% (the taxable income ratio). Prior to 1 January 2011, its EIT rate is 25%.

As advised by Commerce & Finance, according to Article 35 of the PRC Tax Administrative Law (中華人民共和國稅收徵收管理法), and Articles 3 and 4 of the Measures on Authorised Methods of EIT Collection (Trial) (企業所得稅核定徵收辦法(試行)) (the “**Authorised Methods Measures**”), the local tax authorities shall have the right to adopt authorised methods to charge EIT in the event that any of the following six circumstances arises:

1. such taxpayer is not required to maintain any accounting books under applicable laws and regulations;
2. such taxpayer is required to maintain accounting books under applicable laws and regulations but he failed to do so;
3. such taxpayer destroyed its accounting books or refused to provide information for tax computation;
4. the accounting books of such taxpayer is not in proper order or its available accounting information is not sufficient for review;

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5. such taxpayer failed to submit any tax return to the tax authority on time or upon repeated requests; or
6. the amount of taxable income submitted by such taxpayer was relatively low without justifiable reasons.

According to the confirmations issued by the Regional Tax Bureau of Changan District of Shijiazhuang (石家莊市長安區地方稅務局徵收分局) and Regional Tax Bureau of Yuhua District of Shijiazhuang (石家莊市裕華區地方稅務局) (the “**PRC Local Tax Authorities**”), being the competent authorities to opine on the tax affairs of Hebei Changtong and Shijiazhuang Qiushi, respectively, the calculation of EIT using the authorised method based on taxable income ratio-based collection adopted by Hebei Changtong and Shijiazhuang Qiushi were on the basis that the business scope of both companies involve construction, and that the recognition of construction costs is made based on estimated cost which cannot be ascertained accurately for tax review purpose. Hence, the PRC Local Tax Authorities exercised their rights to adopt the authorised method in calculating the EIT of Hebei Changtong and Shijiazhuang Qiushi based on authorised taxable income ratios applicable to these two companies with reference to their actual business conditions. As advised by Commerce & Finance, the Regional Tax Bureau of Changan District of Shijiazhuang (石家莊市長安區地方稅務局徵收分局) and Regional Tax Bureau of Yuhua District of Shijiazhuang (石家莊市裕華區地方稅務局), being the relevant competent tax authorities, are responsible for the adoption of authorised methods as the basis of calculating EIT for Hebei Changtong and Shijiazhuang Qiushi respectively.

Based on the confirmations issued by the PRC Local Tax Authorities, such tax treatments to Hebei Changtong and Shijiazhuang Qiushi are determined by the PRC Local Tax Authorities according to the relevant regulatory requirements of local tax authorities or the actual business condition of our relevant PRC subsidiaries. The adoption of authorised method in calculating the EIT of Hebei Changtong and Shijiazhuang Qiushi based on taxable income ratio-based collection is subject to the approval of the PRC Local Tax Authorities on a year-by-year basis.

However, there can be no assurance as to when, if ever, that such tax treatment would be changed and become less favorable to our Group. If there is any revocation of or unfavorable change to the above tax benefit currently enjoyed by our Group as a result of any change in the governmental policy or law in the future, the tax payable by our Group may be materially increased which will have an adverse impact on the profitability and financial position of our Group.

### **Settlement of contract sum**

After we have entered into the construction contract with our client setting out the final contract price, the scope of work and the payment arrangements, we will commence our deployment works within the timeframe as stipulated in the construction contract and start incurring labour costs and other costs for the works. However, in practice, our major clients usually make payments to us within one to six months upon receiving invoices issued by us. Based on our past collection pattern of our major clients, such as the Major Telecommunication Operator, they normally settled their outstanding balance in the fourth quarter of the year and in December in particular. Further, a portion of contract value, normally 5% to 10%, is usually withheld by our clients as retention money and will be released after the warranty period. As at 31 December 2011, our retention money held by our clients was approximately RMB2.3 million. Any failure by our client to make remittance on the progress payment or retention money on time and in full may have an adverse effect on our future liquidity position.

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### Experimental section

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

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

### Non-recurring expenses

The non-recurring expenses such as restructuring costs and listing expenses may affect the Group's results of operations. The Group has undertaken certain steps for the Reorganisation in anticipation of the Listing. In the acquisition of Beijing U-Ton, the Group has incurred restructuring costs of approximately RMB13.7 million for the year ended 31 December 2010. As a result of such non-recurring item, we recorded a loss attributable to equity holders of the Company of approximately RMB1.3 million. Should such restructuring costs be excluded, the profit attributable to equity holders of the Company for the year ended 31 December 2010 would have been approximately RMB12.4 million.

In addition, as a result of the Listing, listing expenses amounted to approximately RMB9.1 million were charged against our consolidated statements of comprehensive income for the year ended 31 December 2011. Such kind of non-recurring expenses may affect the Group's results of operations in the future.

### BASIS OF PRESENTATION

The financial information is presented in Renminbi, which is the functional currency of the companies now comprising the Group.

In preparation for the Listing, we have undertaken following reorganisation and restructuring.

#### (1) Acquisition of Beijing U-Ton (the "First Acquisition")

- (a) On 28 December 2010, Mr. Jiang (i) subscribed and Partnerfield issued and allotted 17,932 shares for a cash consideration of approximately RMB0.1 million ; and (ii) acquired additional shares from Partnerfield's other shareholders for a cash consideration of approximately RMB0.1 million in aggregate. Upon completion, the equity interests in Partnerfield were owned as to 95% by Mr. Jiang and 5% by Independent Third Parties.



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- (b) On the same date, pursuant to an equity transfer agreement signed on 28 December 2010, Hebei Deer (Hebei Deer together with Partnerfield, collectively referred to as the “Former Partnerfield Group”), which is a 90%-owned subsidiary of Partnerfield, acquired the entire equity interests in Beijing U-Ton from Mr. Jiang and Ms. Guo for a cash consideration of approximately RMB10.0 million.

Upon completion of the above transactions, Partnerfield obtained an indirect 90% equity interests in Beijing U-Ton and Mr. Jiang became the controlling shareholder of Partnerfield. The First Acquisition is accounted for as a reverse acquisition by reference to the principles under IFRS 3 Business Combinations. In accordance with IFRS 3, Beijing U-Ton was identified as the accounting acquirer because Mr. Jiang, who controlled Beijing U-Ton prior to the First Acquisition, obtained control over Partnerfield after the First Acquisition.

Immediately before the First Acquisition on 28 December 2010, while Mr. Jiang was the single largest shareholder holding 42.63% equity interests in Believe Power, he did not control over 50% of the board composition or votings at the shareholders’ meeting and thus was unable to govern the financial and operating policies of Believe Power because his interest in Believe Power was lower than 50%. Believe Power held 49.72% equity interests in Partnerfield. As confirmed by Mr. Jiang, Mr. Li and Mr. Du, there was no agreement among them as to the exercise of shareholder’s rights in Believe Power and Partnerfield and each of them had exercise his rights based on his own commercial decisions and interest. Therefore, the effective equity interests held by Mr. Jiang in Partnerfield were 21.19%, and Mr. Jiang was unable to control the Former Partnerfield Group immediately before the First Acquisition.

Mr. Jiang and his spouse owned 59% and 41% equity interests in Beijing U-Ton, respectively and controlled Beijing U-Ton immediately before the First Acquisition.

On 28 December 2010, Mr. Jiang obtained control over the Former Partnerfield Group through subscribing and acquiring in an aggregate of 95% equity interests in Partnerfield. Simultaneously on the same date, the Former Partnerfield Group obtained control over Beijing U-Ton through acquiring the entire equity interests in Beijing U-Ton from Mr. Jiang and his spouse.

Since the Former Partnerfield Group was not controlled by Mr. Jiang nor any of his associates while Beijing U-Ton was under control of Mr. Jiang and his spouse before the First Acquisition, acquisition accounting has been applied in accordance with IFRS 3. The Former Partnerfield Group is deemed to have been acquired by Beijing U-Ton since Mr. Jiang (controlling shareholder of Beijing U-Ton) obtained a majority of equity interests in the Former Partnerfield Group (and became the controlling shareholder of Partnerfield) upon completion of the First Acquisition. The First Acquisition was, therefore, treated as a reverse acquisition in accordance with IFRS 3.

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*As set out the above, the acquisition of Beijing U-Ton was accounted for as a reverse acquisition. Assets acquired and liabilities recognised of the Former Partnerfield Group as at 28 December 2010, the date of acquisition are set out below.*

	<b>Fair value</b> <i>RMB'000</i>
<i>Non-current assets</i>	
Property, plant and equipment	717
Intangible assets	3
Deferred tax assets	2,024
 <i>Current assets</i>	
Other receivables	4,766
Amounts due from related parties	531
Bank balances and cash	258
 <i>Current liabilities</i>	
Trade and other payables	(1,886)
Amounts due to related parties	(4,021)
Other borrowings	<u>(14,682)</u>
	(12,290)
Non-controlling interests (10% of Hebei Deer)	<u>545</u>
 Net liabilities acquired	 <u><u>(11,745)</u></u>
 <i>Represented by:</i>	
	<i>RMB'000</i>
Subscription of Partnerfield's shares	119
Consideration paid to the existing shareholders of Partnerfield	<u>85</u>
Consideration transferred	204
Dilution of equity interests in Beijing U-Ton (10% in Beijing U-Ton)	1,789
Restructuring costs recognised as expense	<u>(13,738)</u>
	<u><u>(11,745)</u></u>

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The restructuring costs arose in the acquisition of the Former Partnerfield Group was recognised as an expense during the year ended 31 December 2010.

Net cash flow on acquisition of Beijing U-Ton

	<i>RMB'000</i>
Subscription of Partnerfield's shares	(119)
Cash and cash equivalent acquired	<u>258</u>
	<u><u>139</u></u>

### (2) Acquisition of Hebei Changtong (the "Second Acquisition")

On 28 January 2011, Hebei Deer acquired the entire equity interests in Hebei Changtong from Mr. Jiang at a cash consideration of RMB10.0 million. The acquisition of Hebei Changtong from Mr. Jiang by Hebei Deer was a business combination under common control since both Hebei Changtong and our Group (resulted from the completion of the First Acquisition) were controlled by Mr. Jiang. Our Group applied the principles of merger accounting under Accounting Guideline No.5 to account for the Second Acquisition.

Since the First Acquisition was a reverse acquisition, the financial information included in the Accountants' Report set out in Appendix I to the prospectus was prepared as a continuation of Beijing U-Ton which presented the financial results of Beijing U-Ton since the beginning of the Track Record Period and Beijing U-Ton became the then holding company of the companies comprising our Group. On the other hand, Hebei Changtong was the subsidiary acquired by Hebei Deer (a subsidiary of Beijing U-Ton from accounting perspective) and principles of merger accounting were applied to account for such transaction.

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### (3) Acquisition of Shijiazhuang Qiushi (the “Third Acquisition”)

On 1 March 2011, we acquired 100% equity interest in Shijiazhuang Qiushi from Mr. Li and Ms. Ren for a combined consideration of cash and issuance of Partnerfield’s ordinary shares. The Third Acquisition was accounted for as a business combination using the acquisition method.

#### *Consideration transferred*

	<i>RMB’000</i>
Consideration payable ( <i>Note 1</i> )	9,669
Fair value of Partnerfield’s ordinary shares ( <i>Note 2</i> )	31,867
Less: Cash received for subscription for Partnerfield’s ordinary shares	<u>(37)</u>
 Total	 <u>41,499</u>

#### *Notes:*

1. In accordance with the equity transfer agreement, the cash consideration of RMB9,669,000 would be paid within three months from the acquisition date and such amount was included in amount due to Mr. Li and Ms. Ren as at 31 December 2011. As at the Latest Practicable Date, this amount was fully settled.
2. On 1 March 2011, Partnerfield issued and allotted 5,626 shares (equivalent to 15.79% of Partnerfield’s total equity interests) to Mr. Li as part of the consideration. On the date of acquisition, the fair value of Partnerfield’s total equity interests was RMB201,823,000.

The fair value of Partnerfield’s equity has been arrived on the basis of discounted cash flow method carried out on the date of acquisition by American Appraisal China Limited, an independent firm of valuers, who have an appropriate recognised professional qualification. The calculation used cashflow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 17%. The cash flows beyond the 5-year period were extrapolated using an estimated growth rate of 3%. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry.

There was no acquisition-related cost incurred for above transactions.

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### *Assets acquired and liabilities recognised at the date of acquisition*

	<b>Fair Value</b> <i>RMB'000</i>
<i>Non-current assets</i>	
Property, plant and equipment	91
Intangible assets	1,528
<i>Current assets</i>	
Inventories	2,269
Trade receivables	2,497
Other receivables, deposits and prepayments	486
Amounts due from related parties	5,205
Bank balances and cash	984
<i>Current liabilities</i>	
Trade and other payables	(1,219)
Income tax payables	(68)
<i>Non-current liabilities</i>	
Deferred tax liabilities	<u>(373)</u>
	<u>11,400</u>

The trade and other receivables and amounts due from related parties acquired in this transaction with a fair value of RMB8,188,000 had gross contractual amount to receive of RMB8,222,000. The best estimate at acquisition date of the cash flows not expected to be collected is RMB34,000.

### *Goodwill arising on acquisition*

	<i>RMB'000</i>
Consideration transferred	41,499
Less: net assets acquired	<u>(11,400)</u>
Goodwill arising on acquisition	<u>30,099</u>

Goodwill arising from the acquisition of Shijiazhuang Qiushi mainly represents the benefit of expected synergies, revenue growth and future market development in indoor services. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

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### *Net cash inflow on acquisition of Shijiazhuang Qiushi*

RMB'000

Cash consideration paid	—
Cash and cash equivalent balance acquired	984
	<u>984</u>

### *Impact of acquisitions on the results of our Group*

Included in the profit for the year ended 31 December 2011 was a sum of approximately RMB13.1 million attributable to the additional business generated by Shijiazhuang Qiushi. Revenue for the year ended 31 December 2011 included a sum of approximately RMB41.3 million in respect of Shijiazhuang Qiushi.

Had the acquisition been completed on 1 January 2011, total revenue of our Group for the year would have been approximately RMB162.1 million, and profit for the year would have been approximately RMB56.9 million. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the operations of our Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

Upon completion of the Third Acquisition, Partnerfield was owned as to 80% by Mr. Jiang, 15.79% by Mr. Li and 4.21% by Plansmart, with Mr. Li being the sole owner of Plansmart.

#### **(4) Incorporation of our Company**

On 7 March 2011, our Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$100,000 divided into 1,000,000 shares having a par value of HK\$0.10 each. On the same day, one share with par value was allotted and issued as fully paid at par to Company Secretaries Ltd., the first subscriber. On 31 March 2011, the first subscriber transferred the issued one share to Ordillia and our Company issued at par 19 Shares to Ordillia and 80 Shares to Bright Warm. Upon completion, our Company was owned as to 80.00% and 20.00% by Bright Warm and Ordillia, respectively.

On 11 May 2011, Mr. Jiang transferred the 80% equity interests in Partnerfield held by him to our Company in exchange for 720 Shares issued as consideration. Mr. Li and Plansmart transferred the 15.79% and 4.21% equity interest in Partnerfield held by each of them to our Company, respectively in exchange for 180 Shares issued as consideration in aggregate. Upon completion, our Company continued to be indirectly owned as to 80% and 20% by Mr. Jiang and Mr. Li, respectively.

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Our Company's statement of financial position as at 31 December 2011 is disclosed as below:

	<b>At 31 December 2011</b> <i>RMB'000</i>
<i>Non-current assets</i>	
Investment in unlisted shares in a subsidiary, at cost	<u>47,004</u>
<i>Current assets</i>	
Amount due from a subsidiary	932
Amount due from shareholders	<u>—</u>
	<u>932</u>
<i>Current liabilities</i>	
Other borrowing	<u>932</u>
Net current assets	<u>—</u>
Net assets	<u>47,004</u>
<i>Capital and reserves</i>	
Share capital	<u>—</u>
Capital reserves	<u>47,004</u>
	<u>47,004</u>

The financial information is prepared as a continuation of Beijing U-Ton and Hebei Changtong, Beijing U-Ton is deemed as the acquirer of the Former Partnerfield Group as a result of the First Acquisition. In addition, the Second Acquisition is accounted for as a business combination involving entities under common control as Hebei Changtong is controlled by Mr. Jiang both before and after the Second Acquisition.

The consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statement of changes in equity of our Group for the financial years ended 31 December 2010 and 2011 included the results, cash flows and changes in equity of Beijing U-Ton and Hebei Changtong throughout the Track Record Period and also included the financial information of the Former Partnerfield Group and Shijiazhuang Qiushi from the respective acquisition dates.

The consolidated statement of financial position as at 31 December 2010 has been prepared to present the assets and liabilities of Beijing U-Ton and Hebei Changtong that were in existence at that date.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies and estimates are set forth in Notes 3 and 4 of the Accountants' Report set out in Appendix I to this prospectus. In the application of our Group's accounting policies, our Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be

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relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Our Group adopted the following critical accounting policies and estimates:

### **Basis of consolidation**

The consolidated financial statements incorporates the financial statements of our Company and entities controlled by our Company (its subsidiaries). Control is achieved where our Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year, are included in the consolidated statement of comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from our Group's equity therein.

Total comprehensive income and expense of a subsidiary is attributed to the owners of our Company and to non-controlling interests even if these results in the non-controlling interests having a deficit balance.

### **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by our Group, liabilities incurred by our Group to former owners of the acquiree and the equity interests issued by our Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with International Accounting Standard ("IAS") 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by our Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and



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- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, our Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequent whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### **Revenue recognition**

Revenue from the sales of goods is recognised when all the following conditions are satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;

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- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Services income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### **Construction contracts**

#### *Accounting policies*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage-of-completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage-of-completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to clients for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the clients are included in the consolidated statement of financial position under trade and other receivables.

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### *Estimate*

Revenue and profit recognition on construction contracts are recognised by reference to the stage of completion of the contract activity as at the end of each reporting period, which is measured by the proportional total contract costs incurred for work performed to date relative to estimated total contract costs.

In estimating the total contract costs, our Directors consider the actual costs incurred for similar completed contracts as well as market prices of raw materials, subcontract labour costs and other related costs that will affect the estimation of budget cost. In making our judgement, our Directors relies on past experience and current market information.

As market conditions keep changing, actual costs incurred on completion of the project may differ significantly from that initially estimated, which would affect the amounts due from customers for contract work, contract revenue and profit recognised in the period which such changes take place.

As at 31 December 2010 and 31 December 2011, the carrying amount of the amounts due from customers for contract work was approximately RMB16.9 million and RMB63.4 million, respectively.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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Deferred taxation is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority to the same group entity and our Group intends to settle its current tax assets and liabilities on a net basis.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

### **Impairment, useful lives and residual values of property, plant and equipment**

Our Directors assess whether there are any indicators of impairment for an asset at the end of each financial reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. Our Directors based on physical damage and technical obsolescence to assess whether the indicators of impairment for an asset exist.

Useful lives and residual values are reviewed by our Directors at the end of each reporting period. In determining the useful life and residual value of an item of property, plant and equipment, our Directors consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset. The estimation of the useful life of the asset is based on the experience of our Group with similar assets that are used in a similar way. Adjustment to depreciation is made in the period which the revised estimate takes place if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation.

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As at 31 December 2010 and 2011, the property, plant and equipment of our Group amounted to approximately RMB4.9 million and RMB6.5 million, respectively. Any change in the Directors' assessment on impairment, useful lives and residual values of property, plant and equipment will affect the depreciation and the impairment loss to be charged in the profit or loss on a prospective basis.

### **Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill had been allocated. The value in use calculation requires our Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2011, the carrying amount of goodwill was approximately RMB30.1 million. Details of the recoverable amount calculation are disclosed in Note 16 of the Accountants' Report as set out in Appendix I to this prospectus.

### **Impairment on doubtful receivables**

In determining whether there is objective evidence of impairment on doubtful receivables, our Group takes into consideration of the aged analysis of trade receivables and the estimation of future cash flows recoverable from these receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. The amount of the impairment on doubtful receivables 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) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise.

As at 31 December 2010 and 31 December 2011, the carrying amount of trade receivables was approximately RMB15.1 million and RMB62.3 million, which was after impairment on doubtful receivables of approximately nil and RMB0.2 million, respectively.

### **Allowance on inventories**

Our Directors review the inventories on a product-by-product basis at the end of each reporting period to identify obsolete and slow-moving inventory items that are no longer suitable for use in production. Our Directors also estimate the net realisable value for finished goods and raw materials based primarily on current market conditions and the historical experience of manufacturing and selling products of similar nature and make allowance if the net realisable value is lower than the cost. These estimates could change significantly as a result of changes in client preferences in response to the industry cycles. Where the actual net realisable values are less than expected, an allowance may arise.

As at 31 December 2010 and 31 December 2011, the carrying amount of our Group's inventories was approximately RMB7.2 million and RMB2.8 million, respectively. No allowance on inventories was recognised during the Track Record Period.

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### **Provisions**

Provisions are recognised when our Group has a present obligation (legal or constructive) as a result of a past event, it is probable that our Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **Provision for warranty**

Our Group typically provides warranties for one year, after the completion of construction projects, to the clients. Provision for warranty costs are recognised at the date of completion of the relevant projects and at the Directors' best estimate of the expenditure required to settle our Group's obligation.

In making the provision, the Directors consider the actual product failure rates for similar projects, material usage and service delivery costs incurred in servicing these warranty claims, as well as recent trends that suggest that past cost information may differ from future claims. In this regard, our Directors were satisfied that adequate provision for warranty had been made in light of the historical statistics of our Group. Where the actual claims are more than expected, an additional provision for warranty may arise.

As at 31 December 2010 and 2011, the carrying amount of the provision for warranty was approximately RMB0.03 million and RMB0.06 million, respectively.

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The table below set forth our Group's consolidated statements of comprehensive income during the Track Record Period:

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			
	2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Revenue . . . . .	51,547	100.0	161,734	100.0
Cost of sales/services . . . . .	<u>(28,215)</u>	<u>(54.7)</u>	<u>(86,692)</u>	<u>(53.6)</u>
Gross profit . . . . .	23,332	45.3	75,042	46.4
Other income . . . . .	39	0.1	134	0.1
Other gains and losses . . . . .	(13,747)	(26.7)	10,879	6.7
Marketing and distribution expenses . . . . .	(1,067)	(2.1)	(3,245)	(2.0)
Administrative expenses . . . . .	(5,237)	(10.2)	(10,771)	(6.7)
Listing expenses . . . . .	—	—	(9,068)	(5.6)
Finance costs . . . . .	<u>(201)</u>	<u>(0.4)</u>	<u>(1,942)</u>	<u>(1.2)</u>
Profit before taxation . . . . .	3,119	6.0	61,029	37.7
Income tax expense . . . . .	<u>(1,542)</u>	<u>(3.0)</u>	<u>(4,191)</u>	<u>(2.6)</u>
Profit and total comprehensive income for the year . . . . .	<u>1,577</u>	<u>3.0</u>	<u>56,838</u>	<u>35.1</u>
(Loss) profit and total comprehensive (expense) income for the year attributable to:				
Equity holders of the Company . . . . .	(1,272)	(2.5)	55,381	34.2
Non-controlling interests . . . . .	<u>2,849</u>	<u>5.5</u>	<u>1,457</u>	<u>0.9</u>
	<u>1,577</u>	<u>3.0</u>	<u>56,838</u>	<u>35.1</u>
(Loss) earnings per share				
Basic (cents) . . . . .	<u>(0.1)</u>		<u>4.5</u>	

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The table below set forth our Group's consolidated statements of financial position during the Track Record Period.

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>		
Property, plant and equipment . . . . .	4,868	6,451
Goodwill . . . . .	—	30,099
Intangible assets . . . . .	3	11
Deferred tax assets . . . . .	2,159	2,092
Deposits paid for acquisition of property, plant and equipment . . . . .	662	71
	<u>7,692</u>	<u>38,724</u>
<b>Current assets</b>		
Inventories . . . . .	7,249	2,846
Trade and bill receivables . . . . .	15,053	66,316
Other receivables, deposits and prepayments . . . . .	6,969	2,682
Amounts due from customers for contract work . . . . .	16,856	63,480
Amounts due from related parties . . . . .	861	—
Restricted bank deposits . . . . .	601	5,327
Bank balances and cash . . . . .	47,222	43,800
	<u>94,811</u>	<u>184,451</u>
<b>Current liabilities</b>		
Trade and other payables . . . . .	23,997	61,269
Amounts due to related parties . . . . .	16,616	39,084
Bank and other borrowings . . . . .	24,679	5,888
Provision . . . . .	25	60
Income tax payables . . . . .	1,093	2,508
	<u>66,410</u>	<u>108,809</u>
<b>Net current assets</b> . . . . .	<u>28,401</u>	<u>75,642</u>
<b>Total assets less current liabilities</b> . . . . .	<u>36,093</u>	<u>114,366</u>
<b>Non-current liabilities</b>		
Deferred tax liabilities . . . . .	831	2,197
<b>Net assets</b> . . . . .	<u>35,262</u>	<u>112,169</u>
<b>Capital and reserves</b>		
Issued equity . . . . .	20,000	—
Reserves . . . . .	14,018	112,169
Equity attributable to equity holders of the Company . . . . .	34,018	112,169
Non-controlling interests . . . . .	1,244	—
<b>Total equity</b> . . . . .	<u>35,262</u>	<u>112,169</u>



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### DESCRIPTION OF OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME LINE ITEMS

#### Revenue

During the Track Record Period, we derive most of our revenue from deployment services of optical fibers.

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

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

*Notes:*

1. The revenue represented the revenue generated from the deployment services of optical fibers which involve the application of micro-ducts and mini-cables system integration methods.
2. Services income represented the revenue generated from our provision of maintenance services in respect of optical fiber networks.
3. Sales of goods represented the revenue generated from our sales of ancillary products, including micro-ducts and anti-corrosive steel wires.
4. Rental income represented the revenue generated from a sublease for deployment of telecommunication networks.
5. The revenue represented the revenue of Shijiazhuang Qiushi from 1 March 2011 (date of acquisition) to 31 December 2011.

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### Construction contract revenue

The construction contract revenue, representing the income generated from our provision of the deployment services of optical fibers, was approximately RMB45.8 million and RMB112.6 million, respectively, representing approximately 88.8% and 69.6%, respectively, of the total revenue of the Group for the two years ended 31 December 2010 and 2011. Our deployment methods can be divided into traditional deployment methods and micro-ducts and mini-cables system integration methods. The traditional deployment methods include aerial access, direct burial, conduit installation and pipe jacking. The micro-ducts and mini-cables system integration methods include a combination of certain deployment methods known as in-sewer, pipe jacking and cable troughing utilising our patented technology in relation to the micro-ducts and mini-cables. The increase in construction revenue for the year ended 31 December 2011 as compared to the same period in 2010 was mainly due to the increase in the revenue derived from the provision of deployment services of optical fibers in Shijiazhuang, Tangshan, Cangzhou, Hengshui, Zhangjiakou, Chengde, Handan and Baoding as a result of geographical expansion of our business.

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

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### *Revenue from construction contract by cities/districts*

The following table set forth our revenue from construction contract by cities/districts for the periods indicated.

	Year ended 31 December			
	2010		2011	
	RMB'000	%	RMB'000	%
<b>Cities/districts within Hebei Province</b>				
Shijiazhuang . . . . .	21,845	47.7	50,030	44.4
Tangshan . . . . .	12	0.0	15,220	13.5
Cangzhou . . . . .	1,351	3.0	10,235	9.1
Hengshui . . . . .	2,008	4.4	6,392	5.7
Zhangjiakou . . . . .	1,050	2.3	6,120	5.4
Chengde . . . . .	3,027	6.6	5,403	4.8
Handan . . . . .	2,960	6.5	5,063	4.5
Baoding . . . . .	—	—	1,325	1.2
Qinhuangdao . . . . .	—	—	159	0.1
Xingtai . . . . .	2,215	4.8	77	0.1
Subtotal . . . . .	<u>34,468</u>	<u>75.3</u>	<u>100,024</u>	<u>88.8</u>
<b>Cities/districts outside Hebei Province</b>				
Shenyang . . . . .	4,838	10.6	5,865	5.2
Xi'an . . . . .	3,402	7.4	3,553	3.2
Beijing . . . . .	32	0.1	968	0.9
Jinan . . . . .	178	0.4	460	0.4
Haozhou . . . . .	—	—	460	0.4
Nanchang . . . . .	1,496	3.3	448	0.4
Zhengzhou . . . . .	—	—	284	0.3
Hefei . . . . .	—	—	200	0.1
Changsha . . . . .	—	—	139	0.1
Zhuzhou . . . . .	—	—	120	0.1
Chizhou . . . . .	—	—	117	0.1
Inner Mongolia . . . . .	1,338	2.9	—	—
Subtotal . . . . .	<u>11,284</u>	<u>24.7</u>	<u>12,614</u>	<u>11.2</u>
Total construction contract revenue . . . . .	<u><u>45,752</u></u>	<u><u>100.0</u></u>	<u><u>112,638</u></u>	<u><u>100.0</u></u>

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### Services income

The services income, representing the income generated from our provision of the maintenance services in respect of optical fiber networks to the telecommunication operators in the PRC irrespective of whether or not the deployment works thereof are carried out by us, was approximately RMB4.6 million and RMB5.9 million, respectively, representing approximately 8.8% and 3.7%, respectively, of the total revenue of our Group for the two years ended 31 December 2010 and 2011. Our maintenance services mainly cover regular inspection of the deployed cables, repair and re-connection of optical fibers and testing of the signal transmission. The increase in services income for the year ended 31 December 2011 as compared to the same period in 2010 was mainly due to the increase in the demand of maintenance services in Shijiazhuang, Hengshui, Handan and Xingtai.

### Sales of goods

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

Sales of goods, representing the income which generated from the sale of ancillary products, were approximately RMB1.0 million and RMB2.6 million, respectively, representing approximately 1.9% and 1.6%, respectively, of the total revenue of the Group for the two years ended 31 December 2010 and 2011.

The increase in sales of goods for the year ended 31 December 2011 as compared to the same period in 2010 was mainly due to the increase in the sales of the ancillary products in relation to our deployment projects of optical fibers.

### Rental income

The rental income, representing the income generated from the sub-lease of the underground area to our clients of their deployment of telecommunication networks therein, was approximately RMB0.3 million and RMB0.07 million, respectively, representing approximately 0.5% and 0.0%, respectively, of the total revenue of the Group for the two years ended 31 December 2010 and 2011. The decrease in rental income during the Track Record Period was mainly due to the reduction of underground area leased out to our clients.

### Low-voltage equipment integration services

Low-voltage equipment integration services, representing the income generated from the provision of integration services for low-voltage equipments and accessories to the clients including financial institutions, governmental departments, road and transportation companies, state-owned and private companies was approximately RMB40.5 million for the period from 1 March 2011 to 31 December 2011, representing approximately 25.1% of our total revenue for the year ended 31 December 2011 given that we acquired Shijiazhuang Qiushi on 1 March 2011. Based on the unaudited

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management account of our Group for the four months ended 30 April 2012, the revenue generated from the provision of integration services for low-voltage equipments and accessories was approximately RMB3.7 million, representing 8.4% of the total revenue of our Group for the four months ended 30 April 2012.

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

Subsequent to 31 December 2011, most of the projects awarded in the first quarter of 2012 and the three projects which were still working in progress as at 31 December 2011 had been completed before 18 May 2012. There was one project in progress with the contractual amount of approximately RMB4,000 and two projects to be commenced with the contractual amount of approximately RMB 2.0 million as at 18 May 2012.

### Cost of sales/services

The cost of sales/services primarily consists of material cost, labour costs and others.

	<b>Year ended 31 December</b>			
	<b>2010</b>		<b>2011</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Labour costs . . . . .	19,417	68.8	48,758	56.2
Material costs . . . . .	6,811	24.1	32,821	37.9
Others . . . . .	<u>1,987</u>	<u>7.1</u>	<u>5,113</u>	<u>5.9</u>
	<u>28,215</u>	<u>100.0</u>	<u>86,692</u>	<u>100.0</u>

### Labour costs

Labour costs primarily consist of direct labour costs and subcontracting costs. The increase in labour costs for the year ended 31 December 2011 as compared to the year 2010 was also due to the increase in number of construction projects carried out during the year.

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### Material costs

Materials for deployment of optical fibers in relation to micro-ducts and mini-cables system integration method primarily consist of polyethylene, steel wires, mini-cables, connectors, reserve boxes and screw bolts for optical fibers. For projects which involve the application of traditional methods, we will be provided with the optical fibers by clients. Materials for the low-voltage equipment integration services are video conferencing system, projectors, liquid crystal display monitors, card readers and servers. The increase in material costs for the year ended 31 December 2011 as compared to the year ended 31 December 2010 was mainly due to the acquisition of Shijiazhang Qiushi as the major cost of sales/services of low-voltage equipment integration services is material costs.

### Others

Others consist of the direct expenses such as on-site expenses, transportation expenses, consumable tools, repair and maintenance expenses and lease expenses of underground area in relation to our provision of services.

The following table set forth the cost of sales/services by services during the Track Record Period:

	<b>Year ended 31 December</b>			
	<b>2010</b>		<b>2011</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Construction contract revenue				
- Traditional deployment methods . . . . .	11,068	39.2	31,199	36.0
- Micro-ducts and mini-cables system integration methods . . . . .	<u>14,341</u>	<u>50.9</u>	<u>24,716</u>	<u>28.5</u>
Sub-total . . . . .	25,409	90.1	55,915	64.5
Services income . . . . .	2,221	7.8	2,652	3.1
Sales of goods . . . . .	512	1.8	1,731	2.0
Rental income . . . . .	73	0.3	30	0.0
Low-voltage equipment integration services . . . . .	<u>—</u>	<u>—</u>	<u>26,364</u>	<u>30.4</u>
	<u>28,215</u>	<u>100.0</u>	<u>86,692</u>	<u>100.0</u>

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### Gross profit & Gross profit margin

The following table set forth the gross profit of each of our services during the Track Record Period:

	Year ended 31 December			
	2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Gross profit by services</b>				
Construction contract revenue				
- Traditional deployment methods . . . . .	5,025	21.5	24,753	33.0
- Micro-ducts and mini-cables system integration methods . . . . .	<u>15,318</u>	<u>65.6</u>	<u>31,970</u>	<u>42.6</u>
Sub-total . . . . .	20,343	87.1	56,723	75.6
Services income . . . . .	2,347	10.1	3,266	4.4
Sales of goods . . . . .	459	2.0	868	1.1
Rental income . . . . .	183	0.8	35	0.0
Low-voltage equipment integration services . . . . .	<u>—</u>	<u>—</u>	<u>14,150</u>	<u>18.9</u>
	<u><u>23,332</u></u>	<u><u>100.0</u></u>	<u><u>75,042</u></u>	<u><u>100.0</u></u>

The following table set forth the gross profit margin of each of our services during the Track Record Period:

	Year ended 31 December	
	2010	2011
	%	%
<b>Gross profit margin by services</b>		
Construction contract revenue		
- Traditional deployment methods . . . . .	31.2	44.2
- Micro-ducts and mini-cables system integration methods . . . . .	51.6	56.4
Sub-total of construction contract revenue . . . . .	44.5	50.4
Services income . . . . .	51.4	55.2
Sales of goods . . . . .	47.3	33.4
Rental income . . . . .	71.5	53.8
Low-voltage equipment integration services . . . . .	—	34.9
<b>Total</b> . . . . .	<u><u>45.3</u></u>	<u><u>46.4</u></u>

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The increase in our gross profit margin from approximately 45.3% for the year ended 31 December 2010 to approximately 46.4% for the year ended 31 December 2011 was primarily due to the increase in gross profit margin of construction contract revenue in relation to deployment of optical fibers from approximately 44.5% in 2010 to approximately 50.4% in 2011 and the gross profit of which accounted for approximately 87.1% and 75.6% of total gross profit in 2010 and 2011, respectively. This was partially offset by the acquisition of Shijiazhuang Qiushi on 1 March 2011 whose main business is low-voltage equipment integration services which is of a lower gross profit margin as compared to the deployment services of optical fibers and its gross profit accounted for approximately 18.9% of total gross profit in 2011.

The gross profit margin of construction contracts of deployment services of optical fibers using traditional deployment methods increased from approximately 31.2% in 2010 to approximately 44.2% in 2011. The increase was primarily attributable to the fact that we secured two projects in Chengde and Inner Mongolia in 2010, which had lower gross profit margin due to higher subcontracting costs since such projects were referred by the subcontractors, and the revenue from these projects accounted for approximately 44.7% of our revenue from construction contract by traditional deployment methods in 2010. In addition, in 2011, we have obtained a relatively higher gross profit margin project without specifying application methods in its contract so that we used the methods with relatively lower costs, resulting in relatively higher gross profit margin in 2011.

The gross profit margin of construction contracts of deployment services of optical fibers using micro-ducts and mini-cables system integration methods increased from approximately 51.6% in 2010 to approximately 56.4% in 2011. The increase was primarily attributable to the fact that there were more complex projects generating relatively higher gross profit margin in particular the projects in Shijiazhuang, Tangshan, Xi'an and Shenyang.

The gross profit margin of services income increased from approximately 51.4% in 2010 to approximately 55.2% in 2011. Such increase was mainly attributable to the general increase in demand on maintenance services in Shijiazhuang, Xingtai, Handan and Hengshui in the year ended 31 December 2011. In addition, we obtained a non-recurring maintenance services contract in Shijiazhuang amounted to approximately RMB1.2 million which was carried out by the same labour force in other maintenance services contract. Thus, labour costs per unit for maintenance services was reduced and higher gross profit margin was resulted.

The gross profit margin of sales of goods decreased from approximately 47.3% in 2010 to approximately 33.4% in 2011. Such decrease was mainly attributable to the sales of ancillary products and steel wires to our clients at relatively lower selling price during the period.

The gross profit margin of rental income decreased from approximately 71.5% in 2010 to approximately 53.8% in 2011. Such decrease was mainly attributable to the lease cost incurred by us was fixed during the two years ended 31 December 2010 and 2011, while the area occupied by our client decreased during the year ended 31 December 2011 when compared to the same period of 2010.



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The following table set forth the breakdown of revenue, cost of service, gross profit and gross profit margin of our subcontracted projects and non-subcontracted projects from construction contracts during the Track Record Period:

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

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

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

Our gross profit margin, which was over 40% during the Track Record Period, was mainly attributable to the following factors:

- we have developed and obtained a range of utility and invention patents covering the machinery, techniques and parts in relation to micro-ducts and mini-cables system integration methods. By employing such patents and technologies, we are able to provide alternative solution regarding the deployment services of optical fibers to our clients who are willing to offer a relatively higher contract price and the gross profit margin of projects using such methods were higher than those projects utilising traditional methods during the Track Record Period;
- we do not maintain any manufacturing facilities but instead outsource the manufacturing of micro-ducts and anti-corrosive steel wires to manufacturers, who are Independent Third Parties, with lower production cost. This strategy allows us to (i) reduce our manufacturing costs of raw materials; (ii) avoid incurring maintenance costs and depreciation of the manufacturing facilities;
- we recruit temporary workers or engage subcontractors to carry out non-technical works of deployment projects of optical fibers on a project-by-project basis such that it is not necessary for us to maintain our own team of workers responsible for the non-technical works in each project site. We benefit from this arrangement in terms of lowering fixed labour costs and workers' incidental traveling costs.

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### Other income

Our other income primarily consists of interest income earned from bank deposits.

### Other gains and losses

Our other gains and losses mainly consist of (i) fair value adjustment on initial recognition of other borrowings, which represented the difference between the principal amounts of other borrowings of approximately RMB20.3 million and the fair value of other borrowings of approximately RMB19.0 million upon the initial recognition of other borrowings in 2011 and such other borrowings were interest-free, unsecured and repayable within one year from the date of drawdown, for details, please refer to the section headed “Financial information — Discussion of our selected statement of financial position items — Other borrowings” in this prospectus; (ii) gain on discharge of obligations under convertible loans, which represented the difference between the outstanding balance of HK\$15.0 million (equivalent to approximately RMB12.5 million) and the amount of HK\$7.4 million (equivalent to approximately RMB6.2 million) that our Group agreed to pay, no such gain was recorded in 2010 as we entered into agreement with the lenders to settle the outstanding balance in June 2011, for details, please refer to the section headed “Financial information — Discussion of our selected statement of financial position items — Other borrowings” in this prospectus; and (iii) impairment loss on trade receivables, provision of employee injury, net foreign exchange gain, restructuring costs, net loss on sales of scrap materials, write-off of property, plant and equipment, gain on disposal of property, plant and equipment, gain on discharge of long outstanding payables and recovery of other receivables. The table below set forth the breakdown of other gains and losses:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Fair value adjustment on initial recognition of other borrowings . . . . .	—	1,282
Gain on discharge of obligations under convertible loans . . . . .	—	6,352
Impairment loss on trade receivables . . . . .	—	(207)
Provision of employee injury . . . . .	—	(450)
Net foreign exchange gain . . . . .	—	675
Restructuring costs . . . . .	(13,738)	—
Net loss on sale of scrap material . . . . .	(8)	—
Gain on disposal of property, plant and equipment . . . . .	—	6
Write-off of property, plant and equipment . . . . .	(1)	—
Gain on discharge of long outstanding payables . . . . .	—	486
Recovery of other receivables ( <i>Note</i> ) . . . . .	—	2,735
	<u>(13,747)</u>	<u>10,879</u>

*Note:* This amount mainly represented the subsequent collection of other receivables by Hebei Deer which was fully written-off before the First Acquisition.

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### Marketing and distribution expenses

Our marketing and distribution expenses, which consist of primarily building cost of experimental section for trial, staff costs, depreciation and business travelling expenses accounted for approximately 2.1% and 2.0% of our total revenue for the two years ended 31 December 2010 and 2011, respectively. The table below set forth the breakdown of marketing and distribution expenses:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Building cost of experimental section for trial . . . . .	446	1,057
Staff costs . . . . .	—	867
Depreciation . . . . .	99	219
Business travelling expenses . . . . .	56	153
Others . . . . .	<u>466</u>	<u>949</u>
	<u>1,067</u>	<u>3,245</u>

### Administrative expenses

Our administrative expenses, which consist of primarily staff costs, rental and utilities, research and development expenses, business travelling expenses, depreciation, entertainment, office expenses and telecommunication expense, accounted for approximately 10.2% and 6.7% of our total revenue for the two years ended 31 December 2010 and 2011, respectively. The table below set forth the breakdown of administrative expenses:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs . . . . .	1,544	3,564
Rental and utilities. . . . .	433	1,640
Research and development expenses. . . . .	3	1,051
Business travelling expenses . . . . .	410	841
Depreciation . . . . .	525	784
Entertainment. . . . .	599	680
Office expense. . . . .	391	542
Telecommunication . . . . .	177	70
Others . . . . .	<u>1,155</u>	<u>1,599</u>
	<u>5,237</u>	<u>10,771</u>

### Listing expenses

Listing expenses include professional fees relating to the Placing.

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### Finance costs

Our finance cost of approximately RMB0.2 million and RMB1.9 million, which consisted primarily of interest on bank borrowings and the interest expense on other borrowings, was measured at amortised cost using effective interest method, accounted for approximately 0.4% and 1.2% of our revenue for the two years ended 31 December 2010 and 2011, respectively. The Directors are of the view that the impact of finance costs on our net profit margin was immaterial during the Track Record Period.

### Income tax expense

The following table set forth our income tax expenses during the Track Record Period:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
PRC enterprise income tax	1,181	3,129
Under provision in prior year	<u>—</u>	<u>2</u>
	<u>1,181</u>	<u>3,131</u>
Deferred tax		
Current year	9	(306)
Withholding tax	<u>352</u>	<u>1,366</u>
	<u>361</u>	<u>1,060</u>
	<u>1,542</u>	<u>4,191</u>
	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>%</i>	<i>%</i>
Effective tax rate ( <i>Note</i> ) . . . . .	<u>9.1</u>	<u>6.9</u>

*Note:*

Effective tax rate for the year equals to income tax expense divided by profit before taxation. For the year ended 31 December 2010, the profit before taxation was adjusted to exclude the non-recurring restructuring costs of approximately RMB13.7 million. After adjustment, the profit before taxation for the year ended 31 December 2010 was approximately RMB16.9 million.

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The tax charge for the Track Record Period can be reconciled to the profit before taxation per consolidated statements of comprehensive income as follows:

	Year ended	
	31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	<u>3,119</u>	<u>61,029</u>
PRC enterprise income tax at applicable tax of 25%	780	15,257
Tax effect on:		
Expenses not deductible for tax purposes	3,477	3,092
Income not subject to tax ( <i>Note 1</i> )	—	(2,842)
Concessionary rates granted to a PRC subsidiary	(352)	(56)
Taxable income estimated on total revenue ( <i>Note 2</i> )	(2,715)	(12,628)
Under provision in prior year	—	2
Withholding tax on undistributed profit of PRC entities	<u>352</u>	<u>1,366</u>
Tax charge for the year	<u>1,542</u>	<u>4,191</u>

*Notes:*

1. Tax effect on income not subject to tax included tax effect on the gain on discharge of obligations under convertible loans of approximately RMB 6.4 million.
2. The nature of tax effect on taxable income estimated on total revenue represented the tax effect on the difference between the aggregate of taxable incomes of Hebei Changtong and Shijiazhuang Qiushi computed at 8% and 7% of their revenues, respectively, and the amount of profit before taxation. The income tax rate for these two subsidiaries was 25%.

## OUR RESULTS OF OPERATIONS

As part of our Reorganisation, we acquired Shijiazhuang Qiushi on 1 March 2011, and the operating results of Shijiazhuang Qiushi have been consolidated starting from 1 March 2011 onwards. As a result, the following period-to-period discussion may not be comparable, and should be read in conjunction with the discussion of Shijiazhuang Qiushi's stand-alone operating results. For details, please refer to the section headed "Financial information — Results of operations of Shijiazhuang Qiushi" in this prospectus.

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### Year ended 31 December 2011 compared to year ended 31 December 2010

#### *Revenue*

Our revenue increased by 213.8% from approximately RMB51.5 million for the year ended 31 December 2010 to approximately RMB161.7 million for the year ended 31 December 2011. The increase was mainly attributable to (i) significant increase in construction contract revenue by 146.2% from approximately RMB45.8 million for the year ended 31 December 2010 to approximately RMB112.6 million for the year ended 31 December 2011 and accounted for approximately 88.8% and 69.6% of our revenue for the year ended 31 December 2010 and 2011, respectively; (ii) increase in services income by 29.6% from approximately RMB4.6 million to approximately RMB5.9 million as a result of increase in demand of maintenance services in Shijiazhuang, Hengshui, Handan and Xingtai; and (iii) we recorded revenue from provision of low-voltage equipment integration services of approximately RMB40.5 million upon our acquisition of Shijiazhuang Qiushi on 1 March 2011 and accounted for approximately 25.1% of our revenue for the year ended 31 December 2011. The significant increase in construction contract revenue for the year ended 31 December 2011 as compared to the corresponding period in 2010 was primarily attributable to the increase in the revenue derived from the provision of deployment services of optical fibers in Shijiazhuang, Tangshan, Cangzhou, Hengshui, Zhangjiakou, Chengde, Handan and Baoding, which was mainly driven by the deployment services of optical fibers from our clients as well as our effort in expanding of our business in these districts. The increase in revenue of Shijiazhuang Qiushi, from approximately RMB0.4 million for the two months ended 28 February 2011 to RMB40.5 million from 1 March 2011 (date of acquisition) to 31 December 2011, was primarily due to the fact that Shijiazhuang Qiushi secured three new contracts from three different real estate companies which were completed during the period and the revenue recognised amounted to approximately RMB12.0 million. In addition, Shijiazhuang Qiushi has secured a contract from a state-owned information technology company in relation to a governmental project in October 2011 and it was completed in December 2011 with revenue recognised amounted to approximately RMB6.6 million. In addition, Shijiazhuang Qiushi secured and completed 85 other new contracts whose revenues were recognised during the period from 1 March 2011 (date of acquisition) to 31 December 2011.

#### *Cost of sales/services*

Our cost of sales/services increased by 207.3% from approximately RMB28.2 million for the year ended 31 December 2010 to approximately RMB86.7 million for the year ended 31 December 2011, which was in line with the increase in our revenue. Cost of sales/services, as a percentage of revenue, decreased from approximately 54.7% for the year ended 31 December 2010 to approximately 53.6% for the year ended 31 December 2011. The increase in the cost of sales/services was primarily due to (i) increase in labour costs by approximately 151.1% from approximately RMB19.4 million for the year ended 31 December 2010 to approximately RMB48.8 million for the year ended 31 December 2011 as a result of the increase in the number of construction projects; and (ii) increase in material costs by approximately 381.9% from approximately RMB6.8 million for the year ended 31 December 2010 to approximately RMB32.8 million for the year ended 31 December 2011 as a result of increase in the number of construction projects using micro-ducts and mini-cables system integration methods and inclusion of Shijiazhuang Qiushi's cost of materials of approximately RMB23.7 million upon acquisition of Shijiazhuang Qiushi on 1 March 2011.

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### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by approximately 221.6% from approximately RMB23.3 million for the year ended 31 December 2010 to approximately RMB75.0 million for the year ended 31 December 2011, and our gross profit margin increased by approximately 1.1% from approximately 45.3% for the year ended 31 December 2010 to approximately 46.4% for the year ended 31 December 2011. The increase in gross profit margin was primarily due to the increase in gross profit margin of the deployment of optical fibers from approximately 44.5% for the year ended 31 December 2010 to approximately 50.4% for the year ended 31 December 2011 while the gross profit of the deployment of the optical fibers accounted for approximately 87.1% and 75.6% of the gross profit for the two years ended 31 December 2010 and 2011 respectively; and this was partially offset by the acquisition of Shijiazhuang Qiushi on 1 March 2011 whose main business is low-voltage equipment integration services which is of a lower gross profit margin as compared to the deployment services of optical fibers and its gross profit accounted for approximately 18.9% of total gross profit in 2011. Details of the increase in the gross profit margin of the deployment of optical fibers, please refer to the section headed “Financial information — Description of consolidated statements of comprehensive income line items — Gross profit and gross profit margin” in this prospectus.

### *Other income*

Our other income increased significantly from approximately RMB0.04 million for the year ended 31 December 2010 to approximately RMB0.1 million for the year ended 31 December 2011, primarily due to the increase in bank interest income as a result of the increase in bank balance.

### *Other gains and losses*

We recorded other losses of approximately RMB13.7 million for the year ended 31 December 2010 while we recorded other gains of approximately RMB10.9 million for the year ended 31 December 2011, primarily due to the fact that other losses in 2010 were mainly attributable to non-recurring restructuring costs of approximately RMB13.7 million which represented the difference between the fair value of the consideration paid by Mr. Jiang in acquiring the Former Partnerfield Group and the fair value of the assets and liabilities of the Former Partnerfield Group as at the date of acquisition. The fair value of the consideration paid by Mr. Jiang amounted to RMB2.0 million which comprises cash consideration of approximately RMB0.1 million paid for subscription of Partnerfield’s shares, cash consideration of approximately RMB0.1 million paid to acquire Partnerfield’s share from the existing shareholders of Partnerfield and the financial impact of approximately RMB1.8 million on dilution of Mr. Jiang’s interest in Beijing U-Ton through the acquisition of Beijing U-Ton by Hebei Deer. As at the date of acquisition, the fair value of the assets and liabilities of the Former Partnerfield Group was net liabilities of approximately RMB11.7 million. Accordingly, restructuring costs of approximately RMB13.7 million were recognised as expense in the consolidated statement of comprehensive income for the year ended 31 December 2010. For details, please refer to Note 1 of the Accountants’ Report set out in Appendix I to this prospectus. We recorded other gains of approximately RMB10.9 million in 2011 which was mainly due to (i) a recovery of other receivables amounted to approximately RMB2.7 million which was fully written off in Hebei Deer before the First Acquisition and subsequently recovered in December 2011 and (ii) the non-recurring other gains of the imputed gain of approximately RMB1.3 million on fair value adjustment on initial recognition of the other borrowings which were interest-free and gain on discharge of obligations



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under convertible loans of approximately RMB6.3 million, which represented the difference between the payable amount of 2006 Convertible Loans as at the end of June 2011 of approximately HK\$15.0 million (equivalent to approximately RMB12.5 million) and the amount we agreed to pay of RMB6.2 million in June 2011.

### *Marketing and distribution expenses*

Our marketing and distribution expenses increased significantly from approximately RMB1.1 million for the year ended 31 December 2010 to approximately RMB3.2 million for the year ended 31 December 2011. This was primarily attributable to the increase in building cost of experimental section for trial in Harbin, Changchun, Guiyang and Luoyang amounting to approximately RMB1.1 million during the year ended 31 December 2011 for the purpose of promoting our deployment services of optical fibers while the expenses regarding the building cost of experimental section for trial were approximately RMB0.5 million in the same period of 2010.

Also, as a result of acquisition of Shijiazhuang Qiushi, the marketing and distribution expenses of Shijiazhuang Qiushi amounted to approximately RMB1.2 million were included. Hence, our marketing and distribution expenses increased accordingly.

### *Administrative expenses*

Our administrative expenses increased by 105.7% from approximately RMB5.2 million for the year ended 31 December 2010 to approximately RMB10.8 million for the year ended 31 December 2011. The increase in administrative expenses was mainly due to (i) the inclusion of the administrative expenses of Shijiazhuang Qiushi since 1 March 2011 amounted to approximately RMB0.5 million; (ii) the increase in the staff costs from approximately RMB1.5 million in 2010 to approximately RMB3.6 million in 2011 resulting from the increase in the number of staff due to the business expansion in 2011; (iii) the increase in rental and utilities from approximately RMB0.4 million in 2010 to approximately RMB1.6 million in 2011 resulting from increase in the rental charge of the office after the relocation in Beijing; and (iv) the increase in the research and development expenses from approximately RMB3,000 in 2010 to approximately RMB1.1 million in 2011 resulting from the costs incurred for the enhancement of the existing equipments.

### *Listing expenses*

Listing expenses increased from nil in 2010 to approximately RMB9.1 million in 2011, the increase was mainly due to the non-recurring professional fees relating to the Placing incurred in 2011.

### *Finance costs*

Our finance costs increased by approximately 866.2% from approximately RMB0.2 million for the year ended 31 December 2010 to approximately RMB1.9 million for the year ended 31 December 2011. This was primarily due to the imputed interest expenses of approximately RMB1.3 million in relation to other borrowings of approximately RMB20.3 million in February 2011 and interest expenses incurred on new borrowings raised during the year ended 31 December 2011.

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### *Income tax expenses*

Our income tax expenses increased by approximately 171.8% to approximately RMB4.2 million for the year ended 31 December 2011 from approximately RMB1.5 million for the corresponding period in 2010. The effective tax rate decreased to approximately 6.9% for the year ended 31 December 2011 from approximately 9.1% (adjusted for the non-recurring restructuring costs of approximately RMB13.7 million) for the corresponding period in 2010. This was primarily due to the fair value adjustment on initial recognition of other borrowings of approximately RMB1.3 million and gain on discharge of obligations under convertible loans of approximately RMB6.3 million which was not taxable in nature for the year ended 31 December 2011.

### *Profit for the year*

The net profit margin before interest and tax and net profit margin increased respectively from 6.4% and 3.0% for the year ended 31 December 2010 to 38.9% and 35.1% for the year ended 31 December 2011.

The relatively low net profit margin before interest and tax and net profit margin in 2010 was mainly due to the non-recurring restructuring costs of approximately RMB13.7 million for the year ended 31 December 2010. Should such non-recurring restructuring costs be excluded, the net profit margin before interest & tax and net profit margin would have been 33.1% and 29.7% for the year ended 31 December 2010.

The increase of net profit by 3,504.2% from approximately RMB1.6 million for the year ended 31 December 2010 to approximately RMB56.8 million for the year ended 31 December 2011 was primarily due to (i) the increase in non-recurring other gains of approximately RMB7.6 million, which consisted of fair value adjustment on initial recognition of other borrowings of approximately RMB1.3 million and gain on discharge of obligations under convertible loans of RMB6.3 million, during the year ended 31 December 2011; and (ii) we recorded non-recurring other gains of approximately RMB3.2 million during the year ended 31 December 2011 mainly as a result of recovery of other receivables of approximately RMB2.7 million which were fully written off in Hebei Deer before the First Acquisition and recovered subsequently in December 2011. Should these non-recurring items be excluded, our net profit margin before interest and tax and net profit margin for the year ended 31 December 2011 would have been 32.2% and 28.4%, respectively.

The decrease in the net profit margin before interest and tax and the net profit margin from approximately 33.1% and 29.7% for the year ended 31 December 2010 to approximately 32.2% and 28.4% for the year ended 31 December 2011 was mainly due to the recognition of listing expenses of approximately RMB9.1 million during the year ended 31 December 2011.

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### DISCUSSION OF OUR SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

#### Goodwill

On 1 March 2011, we acquired 100% equity interests in Shijiazhuang Qiushi at a combined consideration of (i) cash of approximately RMB9.7 million, which was payable within three months from the date of acquisition; and (ii) the issue and allotment of 5,626 shares by Partnerfield, equivalent to approximately 15.79% equity interests in Partnerfield, to Mr. Li. The fair value of such Partnerfield's shares on the date of acquisition was approximately RMB31.9 million based on the valuation of an independent professional valuer. At the time of acquisition, the fair value of Shijiazhuang Qiushi's net assets was approximately RMB11.4 million, therefore, goodwill of approximately RMB30.1 million arose upon the acquisition of Shijiazhuang Qiushi. The goodwill included (i) control premium of Shijiazhuang Qiushi; and (ii) the amounts in relation to the benefit of expected synergies, revenue growth and future market development.

We test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The fair value of Partnerfield's equity has been arrived on the basis of discounted cash flow method carried out on the date of acquisition by American Appraisal China Limited, an independent firm of valuers, who have an appropriate recognised professional qualification. The calculation uses cashflow projections based on financial budgets approved by our Directors covering a 5-year period and a discount rate of 17%. The cash flows beyond the 5-year period are extrapolated using an estimated growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

#### Inventories

	At 31 December	
	2010	2011
	RMB'000	RMB'000
Raw materials . . . . .	3,542	1,056
Finished goods . . . . .	<u>3,707</u>	<u>1,790</u>
	<u>7,249</u>	<u>2,846</u>

Raw materials mainly consist of polyethylene, steel wires, screw bolts for optical fibers, mini-cables, connectors, reserve boxes, video conferencing system, projectors, liquid crystal display monitors, card readers and servers.

Finished goods mainly consist of micro-ducts and anti-corrosive steel wires.

Inventories balance decreased by approximately 60.7% from approximately RMB7.2 million as at 31 December 2010 to approximately RMB2.8 million as at 31 December 2011. The decrease was mainly due to our subsequent usage of the materials and finished goods for our deployment projects during the year ended 31 December 2011.

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The following table set out a summary of our inventory turnover days for the periods indicated.

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2010</b>	<b>2011</b>
Inventory turnover days ( <i>Note</i> ) . . . . .	94	12

*Note:* Inventory turnover days equal to the inventory divided by cost of sales/services and multiplied by 365 days.

The inventory turnover days decreased from 94 days in 2010 to 12 days in 2011. This was mainly due to the usage of inventories for deployment services during the year ended 31 December 2011.

### **Trade and bill receivables and amounts due from customers for contract work**

#### *Trade and bill receivables*

We recognise our trade receivables when we have (i) billed our clients upon the receipt of final inspection certificates and/or upon the completion of the projects; or (ii) not billed our clients but the final inspection certificates have been received from our clients in respect of optical fibers deployment projects and low-voltage equipment integration projects; or (iii) not billed our clients but the services have been provided or the goods have been delivered with titles thereof have been passed to our clients.

The following table set forth our trade and bill receivables for the periods indicated.

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	15,053	62,527
Less: Allowance for impairment of receivables	<u>—</u>	<u>(207)</u>
	15,053	62,320
Bill receivable	<u>—</u>	<u>3,996</u>
	<u>15,053</u>	<u>66,316</u>

Trade and bill receivables increased from approximately RMB15.1 million as at 31 December 2010 to approximately RMB66.3 million as at 31 December 2011. The increase was mainly due to (i) increase in number of projects completed in relation to the deployment of optical fibers in fourth quarter of 2011; and (ii) increase in services provided and sales of goods near year end.

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An aged analysis of our trade and bill receivables as at the dates specified, based on invoice/completion certificate date, is as follows:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	9,802	58,699
91 to 180 days	2,102	2,051
181 to 365 days	1,167	3,138
1 to 2 years	1,385	2,186
2 to 3 years	65	242
Over 3 years	532	—
	<hr/>	<hr/>
Total trade and bill receivables	<u>15,053</u>	<u>66,316</u>

As at 31 December 2011, out of the total trade receivables of approximately RMB62.3 million, approximately RMB22.8 million or approximately 36.6% of trade receivables represented invoices have been billed to our clients, while the remaining balance of approximately RMB39.5 million or approximately 63.4% of trade receivables represented final inspection certificates have been received by us or services have been provided or the goods were delivered with title has been passed to our clients but invoices have not been issued to our clients as certain internal procedures have to be carried out by our clients before we issue invoices to them (the “**unbilled trade receivables**”). Based on our experience, it normally takes about one to three months for us to issue invoices to our major clients upon the receipt of final inspection certificate in full amount or by installment in accordance with the respective contract term. Up to 29 May 2012, out of the RMB39.5 million unbilled trade receivables, approximately RMB26.4 million or 66.8% with invoices have been billed to our client. The remaining balance of RMB13.1 million or 33.2% have not been billed up to 29 May 2012 was mainly due to (1) approximately RMB3.7 million was related to the Major Telecommunication Operator which installment billing has been made previously. To the best knowledge and belief of the Directors, as the Major Telecommunication Operator is required to go through certain internal procedures before we can bill the remaining balance. We expect subsequent billing can be made no later than June 2012; (2) approximately RMB3.1 million was related to one large scale project of the Major Telecommunication Operator for its upgrade of network which involved a lot of other contractors working on these the project. We will issue invoices upon completion of other parts of project by other contractors. We expect subsequent billing can be made no later than June 2012; (3) approximately RMB1.7 million was related to local governmental authorities in which we are responsible for only parts of the entire projects and we will issue invoices upon the completion of the entire projects. We expect subsequent billing can be made no later than June 2012; and (4) approximately RMB2.8 million was related to a state-owned enterprise in which we will only issue invoice to the client after internal procedures have been carried out by it. We expect to issue invoices no later than July 2012. Our Directors confirm that we have no dispute with our clients in respect of the unbilled trade receivables of RMB13.1 million.

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Out of our total trade receivables of RMB62.3 million as at 31 December 2011, approximately RMB2.6 million of trade receivables were recognised without obtaining the relevant final inspection certificates. The table below set forth the breakdown of amount of trade receivables recognised without final inspection certificates by subsequent billing and settlement:

	<i>(RMB in million)</i>
<b>Amount of trade receivables recognised without the final inspection certificates as at 31 December 2011</b>	<b>2.6</b>
<b>Amount of trade receivables recognised without the final inspection certificates but with invoices as at 31 December 2011</b>	<b>1.7</b>
- Subsequent settlement up to 29 May 2012	0.1
- Unsettled balance as at 29 May 2012 ( <i>Note 1</i> )	1.6
<b>Amount of trade receivables recognised without the final inspection certificates and invoices as at 31 December 2011</b>	<b>0.9</b>
- Subsequent billings up to 29 May 2012 ( <i>Note 2</i> )	0.3
- Unbilled balance as at 29 May 2012 ( <i>Note 3</i> )	0.6

*Notes:*

1. Our Directors consider that the unsettled balance is expected to receive no later than January 2013 as majority of them are retention money under the warranty period which will be settled after the end of the warranty period.
2. The subsequent billings were fully settled as at 29 May 2012.
3. Our Directors considered that the unbilled balance is expected to be billed no later than July 2012 due to the fact that, to the best knowledge and belief of the Directors, there have been changes in staff and accordingly the billing process took longer than usual.

Our Directors confirm that we have no dispute with our clients in respect of the trade receivables recognised without the final inspection certificates as at 31 December 2011.

Despite our major clients do not follow strictly the payment terms as stipulated in the construction contract, normally the collection period of the majority of our trade receivables ranged from 30 to 180 days from the invoice date during the Track Record Period. For deployment services of optical fibers, we generally make open accounts with our major clients, such as the Major Telecommunication Operator, with credit terms of up to 30 to 60 days after the date of invoice, which could be settled by telegraphic transfer or bank deposits. Based on our past collection pattern of our major clients, such as the Major Telecommunication Operator, they normally settle their outstanding balance in the fourth quarter of the year, especially increased payment in December.

We perform reviews of receivables on a case-by-case basis, our allowance for doubtful debts mainly reflects provisions for receivables related to clients whose debts have been long outstanding without subsequent settlement received and management assessed that these receivables are not expected to be recovered. As at 31 December 2011, we had provided allowance for doubtful debts of approximately RMB0.2 million, of which approximately RMB16,000 was made in relation to the Major Telecommunication Operator while the remaining amount was related to four non-major clients. Provision for doubtful debts of approximately RMB16,000 made in relation to the Major Telecommunication Operator was mainly due to the best of Directors' knowledge, the change of the

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internal personnel of the Major Telecommunication Operator resulting that there was misunderstanding between the Major Telecommunication Operator and us and the outstanding amount has been overdue for years, our Directors confirmed that such case was an isolated case during the Track Record Period. In view of the insignificant amount, our management considered that we will not further pursue to collect such amount. Our Directors confirm that the provision was not related to any dispute with the Major Telecommunication Operator in relation to the quality of our works.

Our Directors consider that the provision made in relation to the trade receivables was adequate during the Track Record Period after assessing the time of overdue and the recoverability of the trade receivables of individual clients.

The following table set forth the movements of allowance to impairment of receivables:

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of year	—	—
Additional amounts recognised during the year	—	207
	<u>—</u>	<u>207</u>
Balance at end of year	<u>—</u>	<u>207</u>

Save as disclosed above, our Directors confirmed that our Group has not experienced any material recoverability problem of trade receivable with our major clients during the Track Record Period. The subsequent settlements of our trade receivables as at 31 December 2011 amounted to approximately RMB25.3 million up to 29 May 2012 which represented approximately 100% of trade receivables that we had billed our clients as at 31 December 2011 and approximately 40.6% of trade receivables as at 31 December 2011.

The table below set forth our trade and bill receivable turnover days for the periods indicated:

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2010</b>	<b>2011</b>
Trade and bill receivable turnover days ( <i>Note</i> )	143	196

*Note:* Trade and bill receivable turnover days equal to trade and bill receivable divided by the sum of revenue recognised from completed optical fibers deployment projects and revenue from other services, multiplied by 365 days.

Our trade and bill receivable turnover days were 196 days for the year ended 31 December 2011, which were longer than our trade and bill receivable turnover days of 143 days for the year ended 31 December 2010 as out of the trade receivables of approximately RMB62.3 million as at 31 December 2011, (i) approximately RMB22.8 million or 36.6% of the trade receivables represented invoices have been billed to clients; and (ii) approximately RMB39.5 million or 63.4% of the trade receivables related to projects which we had received final inspection certificates or services we provided or

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goods we delivered with title passed to our clients but not yet issued invoices as at 31 December 2011 which led to higher trade and bill receivable turnover days. The reason that we had not issued invoices for the projects which we had received final inspection certificates or we had provided services or delivered goods to our clients as at 31 December 2011 because the deployment projects and low-voltage equipment integration services were completed or services have been provided or goods have been delivered mainly in November and December 2011 and the invoices for the same was not issued to our clients and certain internal procedures had to be carried out by our clients before we could issue invoices to them. Hence, the trade and bill receivable turnover days were longer for the year ended 31 December 2011.

The trade and bill receivable turnover days of 143 and 196, respectively, during the Track Record Period had no material adverse impact on our liquidity as we usually settle substantial part of those corresponding subcontracting costs on installment basis in respect of the construction contracts and we communicated with our subcontractors to better align our payment practices with the settlement practice of our clients.

### *Amounts due from customers for contract work*

Our amounts due from customers for contract work represent the amounts that have been recognised using the stage-of-completion method of accounting but the final inspection certificates are not issued by our clients. Certain progress billing will be made based on stage-of-completion method and in accordance with the terms set out in the contracts, otherwise, we bill our clients when the deployment projects completed and passed the inspection and final inspection certificates have been issued. Normally, the period between completion of our deployment projects to the issuance of the final inspection certificates ranges from one to four months.

The following table set forth our amounts due from customers for contract work for the periods indicated.

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Contracts in progress at the end of the reporting period</i>		
Contract costs incurred plus recognised profit or loss . . . . .	16,856	63,480
Less: progress billings . . . . .	<u>—</u>	<u>—</u>
	<u>16,856</u>	<u>63,480</u>

The increase in amounts due from customers for contract work from approximately RMB16.9 million as at 31 December 2010 to approximately RMB63.5 million as at 31 December 2011 was mainly due to the increase in the number of deployment projects in progress from 49 as at 31 December 2010 to 56 as at 31 December 2011.



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The table below set forth the summary of status of our projects:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
Number of projects:		
Completed . . . . .	47	115
In-progress . . . . .	49	56

The table below set forth the breakdown of amounts due from customers for contract work by subsequent billing and settlement:

*(RMB in million)*

<b>Amounts due from customers for contract work as at 31 December 2011 . . . . .</b>	<b>63.5</b>
<b>Amounts due from customers for contract work with invoices as at 29 May 2012 (Note) . . . . .</b>	<b>9.4</b>
- Settlement up to 29 May 2012 . . . . .	4.2
- Unsettled balance as at 29 May 2012 . . . . .	5.2
<b>Amounts due from customers for contract work without invoices as at 29 May 2012 . . . . .</b>	<b>54.1</b>

*Note:* Progress billing was made based on stage-of-completion of the projects and in accordance with the terms set out in the contracts. We will not recognise such amount in our trade receivables as the projects are still in progress and we do not receive final inspection certificates from our clients.

Out of the amounts due from customers for contract work of approximately RMB63.5 million as at 31 December 2011, approximately RMB9.4 million or approximately 14.8% of amounts due from customers was billed by issuing invoices to our clients subsequently up to 29 May 2012. The remaining balance of approximately RMB54.1 million or approximately 85.2% of amounts due from customers for contract work was still unbilled principally due to the fact that those projects were either still under construction in progress or pending the receipt of final inspection certificates as at 29 May 2012. Despite the ratio of subsequent billing and/or settlement of such amount due from customers for contract work was relatively low up to 29 May 2012, substantially the entire amount of RMB63.5 million was recognised based on the progress of each underlying individual project as inspected by consultancy firms which are Independent Third Parties.

Our Directors confirm that we did not have any disputes with our clients on the services rendered/amount of such contract work during the Track Record Period.

### *Credit evaluation system and review procedures*

In relation to our credit control system, for the clients which have no prior business relationships with us, we will usually (i) obtain copies of business licences of clients; and (ii) perform background searches regarding the financial and legal positions of the clients so as to assess the credit reliability of our clients before entering into agreements with them.

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Moreover, in order to keep track of the credibility of our existing clients and determine the credit limit to be granted, we will (i) monitor the repayment record of our clients on a monthly basis; (ii) perform annual reviews on our clients to assess their financial strength; and (iii) interview with our clients to understand any adverse change on their business condition on a yearly basis. To enhance the recoverability of our trade receivables, we will communicate with our clients to confirm their repayment time and issue payment reminder to the clients whose trade receivables were due, if necessary.

For those clients with unsatisfactory record without providing reason acceptable to us, we may request them to make partial or entire payment in advance.

### *Liquidity*

In light of our relatively long trade and bill receivable turnover days which may lead to considerable pressure on our working capital management and may adversely affect the liquidity of our working capital, for the two years ended 31 December 2010 and 2011, we had met our working capital and other liquidity requirements principally through bank borrowings, cash inflow from operating activities and advances from related parties. To address this, we plan to manage our working capital requirements going forward by:

- maintaining banking facilities. As at 31 December 2010 and 2011 and the Latest Practicable Date, we had banking facilities of RMB10.0 million, RMB20.0 million and RMB20.0 million, respectively. As at the Latest Practicable Date, banking facilities of RMB12.2 million were unutilised. In addition, historically we have been able to obtain banking facilities and we have used our trade receivables as security for the bank borrowings;
- settling our subcontracting costs on installment basis in respect of the construction contracts. We will continue to communicate with our subcontractors to better align our payment practice with the settlement practice of our clients; and
- managing our inventory through the management of our procurement.

### **Other receivables, deposits and prepayments**

Other receivables, deposits and prepayments primarily include prepayment for purchase of materials, deposits, advances to employees, and advances to third parties.

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables — non-trade . . . . .	5,053	50
Staff loans . . . . .	1,011	—
Advances to suppliers . . . . .	367	1,215
Deposits . . . . .	208	1,086
Other . . . . .	330	331
	<u>6,969</u>	<u>2,682</u>

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Other receivables — non-trade represented amount due from Independent Third Party for its funding usage which were unsecured and interest-free, repayable on demand and the amount had been settled in March 2012.

Staff loans mainly represented loans to about 50 employees for their personal funding. The staff loans were interest-free and had been settled during the year ended 31 December 2011. We will not provide loan to Independent Third Parties and our employees after Listing.

Advances to suppliers represented payment in advance to suppliers for purchase of materials. Advances to suppliers increased from approximately RMB0.4 million as at 31 December 2010 to approximately RMB1.2 million as at 31 December 2011, the increase was mainly due to purchase of materials for low-voltage equipment by Shijiazhuang Qiushi.

### Amounts due from related parties

Name of related parties	At 31 December	
	2010 RMB'000	2011 RMB'000
Non-trade nature		
Hebei Deyuan .....	278	—
Hebei Qianyuan Communication Equipment Company Limited (河北乾源通信設備有限公司).....	52	—
Believe Power .....	148	—
Boom World .....	12	—
Plansmart .....	12	—
Ordillia .....	27	—
Mr. Jiang .....	119	—
Mr. Li .....	213	—
	<u>861</u>	<u>—</u>

The advances to Hebei Deyuan Tube Manufacturing Company Limited (河北德源管業製造有限公司) and Hebei Qianyuan Communication Equipment Company Limited (河北乾源通信設備有限公司) were used as their general working capital and had been settled during the year ended 31 December 2011. The advances to Believe Power, Boom World, Plansmart, Ordillia and Mr. Jiang as at 31 December 2010 represented payment on their behalf for the share capital payment of Partnerfield, and such advances were fully settled in June 2011. The advance to Mr. Li represented payment on behalf of Shijiazhuang Qiushi for its working capital purpose and such advance had been settled during the year ended 31 December 2011.

During the Track Record Period, our subsidiaries in the PRC made advances to and received advances from third party companies which were interest free in the PRC. Our Group has fully received and settled such advances prior to the Listing. As advised by Commerce & Finance, such lending activities contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions (貸款通則), the PBOC shall suppress such activities and may impose a fine equivalent to one to five times of the income (i.e. interests) generated from such advances and borrowings on the lenders. However, as our advances made to third party companies were interest free and did not generate any income, there was no fine or other penalty imposed on us during the Track Record Period.

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### Trade and other payables

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables . . . . .	14,665	37,257
Bill payables . . . . .	601	5,052
Advance from clients . . . . .	1,604	—
Other payables . . . . .	2,786	8,949
Other tax payables . . . . .	965	4,216
Accrued payroll . . . . .	<u>3,376</u>	<u>5,795</u>
	<u>23,997</u>	<u>61,269</u>

Our trade payables represent amounts payable in connection with the purchase of materials from suppliers and labour costs payable to the contract workers and/or subcontractors. The following table set out an aged analysis of trade payables and bill payable by date of invoices received at the end of the period indicated.

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days . . . . .	11,435	25,791
91 to 180 days . . . . .	13	5,561
181 to 365 days . . . . .	341	10,402
1 to 2 years . . . . .	2,839	483
2 to 3 years . . . . .	638	47
Over 3 years . . . . .	<u>—</u>	<u>25</u>
	<u>15,266</u>	<u>42,309</u>
Trade and bill payables turnover days ( <i>Note</i> ) . . . . .	197	178

*Note:* Trade and bill payables turnover days equal to trade and bill payables divided by cost of sales/services and multiplied by 365 days.

The credit terms granted by our suppliers of goods during the Track Record Period generally ranged from payment on delivery to 90 days. There were no credit terms granted by our suppliers of services in relation to the subcontractors of deployment services of optical fibers. We would settle substantial part of our subcontracting costs on installment basis with reference to the payment pattern of our clients in respect of the construction contracts. As at 31 December 2010 and 2011, over 30% of the trade and bill payables represented payables to our subcontractors of deployment services of optical fibers.

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Our trade and bill payables turnover days were 197 days and 178 days for the two years ended 31 December 2010 and 2011.

The trade and bill payables turnover days decreased from 197 days for the year ended 31 December 2010 to 178 days for the year ended 31 December 2011. The decrease in trade and notes payables turnover days for the year ended 31 December 2011 was mainly due to the increase in settlement by way of payment on delivery upon acquisition of Shijiazhuang Qiushi.

We generally seek to match the cash received with the payment to be made in order to maintain our liquidity. The Directors confirmed that there was no dispute with the suppliers and subcontractors on settlement of trade payables during the Track Record Period.

The subsequent settlement of our trade and bill payables as at 31 December 2011 amounted to approximately RMB27.0 million or 63.8% up to 29 May 2012.

Other payables as at 31 December 2011 mainly represented accrual for Listing expenses of approximately RMB4.2 million and the advance made from Independent Third Parties of approximately RMB1.7 million and such advance has been settled in March 2011.

### Amounts due to related parties

The following table set forth our amounts due to related parties as at the dates indicated:

Name of related party	At 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Non-trade nature		
Hebei Deyuan .....	393	—
Ms. Guo .....	7,614	4,130
Mr. Jiang .....	7,497	16,347
Ms. Jiang Ling .....	30	—
Mr. Li .....	1,082	8,115
Hebei Xinhua .....	—	200
Hebei Ruihui .....	—	1,800
Ms. Ren .....	—	2,603
Ordillia .....	—	5,889
	<u>16,616</u>	<u>39,084</u>

The advances from Mr. Li and Ms. Ren as at 31 December 2011 represented unsettled balance for the acquisition of Shijianzhuang Qiushi on 28 February 2011 by the Group and the balances had been settled in March 2012. In addition, the amounts due to Hebei Xinhua, Hebei Ruihui and Ordillia had been settled in March 2012.

For the amounts due to Mr. Jiang and Ms. Guo as at 31 December 2011, the sum in aggregate amounted to approximately RMB20.0 million will be waived by such related parties prior to Listing and the remaining balance of the amounts due to related parties in non-trade nature of approximately RMB0.5 million had been settled before Listing.

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### Bank and other borrowings

The following table set forth the bank and other borrowings as at the dates indicated:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings . . . . .	9,997	4,956
Other borrowings . . . . .	<u>14,682</u>	<u>932</u>
	<u>24,679</u>	<u>5,888</u>

### Secured bank borrowings

The secured bank borrowings were secured by a charge over certain of our Group's trade receivables and are repayable one year from the end of each reporting period. The secured bank borrowings were RMB7.8 million as at Latest Practicable Date. The effective interest rates on the borrowings are set out as follows:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>%</i>	<i>%</i>
Floating-rate borrowings . . . . .	<u>5.84</u>	<u>7.26</u>

The aforesaid secured bank borrowings were related to the recourse factoring agreements (有追索權國內保理合同) entered into between our Group and China Construction Bank Shijiazhuang Guangan Dajie Branch (the “**Bank**”) during the Track Record Period. On 3 June 2009, we entered into a recourse factoring agreement with the Bank for a term of one year from 3 June 2009 to 2 June 2010 (the “**2009 Recourse Factoring Agreement**”). Pursuant to the 2009 Recourse Factoring Agreement, we shall assign our trade receivables in respect of the provision of services and sales of goods to the Major Telecommunication Operator to the Bank in return for a revolving bank facilities of up to 80% of the value of the trade receivables assigned and with a maximum amount of facilities of RMB3.5 million. The Bank shall be entitled to charge us a fee being 5% of the face amount of each trade receivables (the “**Bank Charge**”). In relation to any prepaid drawdown, it shall be subject to the interest rate of 10% above benchmark loan interest rate of the PBOC's benchmark interest rate for loans with corresponding grade and period<sup>(Note)</sup> as at the particular day of such drawdown and calculated on a daily basis (the “**PBC Benchmark Interest Rate**”). Pursuant to the 2009 Recourse Factoring Agreement, we shall repay the principal amount of drawdowns immediately after the Major Telecommunication Operator settled the corresponding trade receivables assigned to the Bank.

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*Note:* The corresponding grade and period referred to the period from the date of prepayment to the maturity date of trade receivables

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In June 2010, we renewed the 2009 Recourse Factoring Agreement for a term of one year from June 2010 to June 2011 (the “**2010 Recourse Factoring Agreement**”). Save and except the maximum amount of facilities was increased to RMB10.0 million, the Bank Charge was increased to 8% and the interest rate for prepaid drawdowns was equal to the PBC Benchmark Interest Rate, the terms of the 2010 Recourse Factoring Agreement were substantially the same as the 2009 Recourse Factoring Agreement.

On 13 June 2011, we renewed the 2010 Recourse Factoring Agreement for a term of one year from 13 June 2011 to 14 June 2012 (the “**2011 Recourse Factoring Agreement**”). Save and except the maximum amount of facilities was increased to RMB20.0 million, the Bank Charge was increased to 10.24% and the interest rate for prepaid drawdowns was increased to 15% above benchmark loan interest rate of the PBC Benchmark Interest Rate, the terms of the 2011 Recourse Factoring Agreement were substantially the same as the 2010 Recourse Factoring Agreement.

All bank borrowings are carrying at floating rate, secured by a charge over our Group’s certain trade receivables and there were handling fee incurred in respect of such bank borrowings. The details of which are as follows:

	<b>At 31 December</b>		<b>At Latest</b>
	<b>2010</b>	<b>2011</b>	<b>Practicable</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<b>Date</b>
			<i>RMB’000</i>
Carrying amount of trade receivables charged. . . . .	6,166	6,195	9,804
Handling fee incurred ( <i>Note</i> ) . . . . .	163	95	—

*Note:* The handling fee were recorded in administrative expenses in our consolidated statements of comprehensive income.

Pursuant to the above recourse factoring agreements, our Group shall only assign the trade receivables for the loan amount drawn instead of assigning all of its trade receivables from the Major Telecommunication Operator. As at 31 December 2011, our unused banking facilities amounted to approximately RMB15.0 million. We have not encountered any difficulties in obtaining bank loans or banking facilities to finance our operations during the Track Record Period and up to the Latest Practicable Date.

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### Other borrowings

- (i) Included in other borrowings at 31 December 2010 were amounts payable by Partnerfield for settlement of convertible loans matured in the year ended 31 December 2008 and are analysed as follows:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing at 5% per annum computed on daily basis . . .	10,122	—
Non-interest bearing. . . . .	<u>4,560</u>	<u>—</u>
	<u>14,682</u>	<u>—</u>

In June 2011, Partnerfield has entered into agreements with the lenders to settle the above outstanding balances of HK\$15.0 million (equivalent to approximately RMB12.5 million). Pursuant to the agreements, the Group agreed to pay HK\$7.4 million (equivalent to approximately RMB6.2 million) to the lenders to discharge all obligations of Partnerfield under the convertible loans resulted in a gain of HK7.6 million (equivalent to approximately RMB6.3 million). Out of the repayment of RMB6.2 million, RMB1.8 million (equivalent to approximately HK\$2.2 million) was from the advance of Mr. Li and such advance had been repaid in March 2012. We obtained the fund by issuing the convertible loans in 2006 and 2007 to the then lenders to principally finance the former business of Hebei Deer. For details of the convertible loans, please refer to the section headed “History and development — Reorganisation — 2006 Convertible Loans” in this prospectus. The outstanding amount of RMB6.2 million had been fully settled during the year ended 31 December 2011.

- (ii) During the year ended 31 December 2011, our Group advanced from four Independent Third Parties with the principal amounts of approximately RMB20.3 million. As Hebei Deer has no substantive business since 2007, Hebei Deer can only obtain borrowings from four Independent Third Parties and such borrowings were mainly used to repay the amounts due to Mr. Jiang and Ms. Guo arising from the acquisition of Beijing U-Ton by Partnerfield. The unsecured other borrowings were interest free and due within one year. According to the Reply of the Supreme People’s Court on How to Determine the Validity of the Loans Between Individuals and Enterprises (最高人民法院關於如何確認公民與企業之間借貸行為效力問題的批復) (the “Reply”), loans made between individuals and enterprises are legal and valid. Therefore, Commerce & Finance, is of the view that the borrowings we made from individuals who are PRC residents do not violate the relevant PRC laws. However, the law shall not protect that part of income generated from those loans with an interest rate exceeding four times or more of the bank interest rate for the same type of loan during the same period of time and such part of income would not be penalised. We had repaid the other borrowings of principal amount of RMB20.3 million in October and November 2011 by way of capital contribution from Mr. Jiang and Ms. Guo.
- (iii) In December 2011, the Group entered into a loan agreement with a company in Hong Kong which is an Independent Third Party with principal amount of HK\$2.8 million. The Group repaid approximately HK\$1.6 million in December 2011 with an outstanding amount of HK\$1.2 million



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(equivalent to RMB0.9 million) as at 31 December 2011, which is secured by personal guarantee of Mr. Jiang, interest-bearing at 10% per annum with reference to the prevailing bank interest rate in Hong Kong and repayable within one year from the date of drawdown. As at the Latest Practicable Date, the personal guarantee provided by Mr. Jiang was released.

Save as the other borrowings of RMB0.9 million are denominated in HK dollars, all bank and other borrowings are denominated in the functional currencies of our Group.

### RESULTS OF OPERATIONS OF SHIJIAZHUANG QIUSHI

We completed the acquisition of Shijiazhuang Qiushi on 1 March 2011. Accordingly, our financial statements reflect the financial results of Shijiazhuang Qiushi beginning on 1 March 2011.

To assist potential investors in evaluating Shijiazhuang Qiushi, the company which we acquired as part of the Reorganisation, we are presenting a summary discussion of the historical financial results of Shijiazhuang Qiushi on a stand-alone basis. This information should be read together with the period-to-period discussion of the Group on an actual historical basis in the section headed “Financial information — Our results of operations” and Shijiazhuang Qiushi’s audited financial statements included in note 34 to Section A of Appendix I to this prospectus.

The following table set forth a summary of the statements of comprehensive income of Shijiazhuang Qiushi for the periods indicated by amount and as a percentage of the total revenue.

	<b>Year ended</b>		<b>Two months ended</b>	
	<b>31 December</b>		<b>28 February</b>	
	<b>2010</b>		<b>2011</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Revenue . . . . .	13,448	100.0	377	100.0
Cost of sales . . . . .	<u>(8,781)</u>	<u>(65.3)</u>	<u>(195)</u>	<u>(51.7)</u>
Gross profit . . . . .	4,667	34.7	182	48.3
Other income . . . . .	1	0.0	—	—
Other gains and losses . . . . .	541	4.1	—	—
Distribution expenses . . . . .	(537)	(4.0)	(143)	(37.9)
Administrative expenses . . . . .	<u>(853)</u>	<u>(6.4)</u>	<u>(102)</u>	<u>(27.1)</u>
Profit (loss) before taxation . . . . .	<u>3,819</u>	<u>28.4</u>	<u>(63)</u>	<u>(16.7)</u>
Income tax (expense)/credit . . . . .	<u>(255)</u>	<u>(1.9)</u>	<u>2</u>	<u>0.5</u>
Profit (loss) and total comprehensive income for the year/period . . . . .	<u><u>3,564</u></u>	<u><u>26.5</u></u>	<u><u>(61)</u></u>	<u><u>(16.2)</u></u>

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**STATEMENTS OF FINANCIAL POSITION**

	<b>At 31 December 2010 <i>RMB'000</i></b>	<b>At 28 February 2011 <i>RMB'000</i></b>
<b>Non-current assets</b>		
Property, plant and equipment.....	97	91
Deferred tax assets.....	—	9
	97	100
<b>Current assets</b>		
Inventories.....	2,198	2,269
Trade receivables.....	7,104	2,497
Other receivables, deposits and prepayments.....	1,360	486
Amounts due from related parties.....	1,799	5,205
Bank balances and cash.....	1,452	984
	13,913	11,441
<b>Current liabilities</b>		
Trade and other payables.....	3,475	1,219
Income tax payable.....	220	68
	3,695	1,287
<b>Net current assets</b> .....	10,218	10,154
<b>Total assets less current liabilities</b> .....	10,315	10,254
<b>Net assets</b> .....	10,315	10,254
<b>Capital and reserves</b>		
Paid-in capital.....	10,180	10,180
Reserves.....	135	74
<b>Total equity</b> .....	10,315	10,254

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### DISCUSSION OF SHIJIAZHUANG QIUSHI'S SELECTED STATEMENTS OF FINANCIAL POSITION ITEMS

#### Inventories

The following table set forth the components of Shijiazhuang Qiushi's inventories balances, as at the dates indicated.

	At 31 December 2010 <i>RMB'000</i>	At 28 February 2011 <i>RMB'000</i>
Inventories . . . . .	<u>2,198</u>	<u>2,269</u>

Shijiazhuang Qiushi's inventories generally consist of video conference system, projectors, liquid crystal display monitors and servers, etc.

The following table set out a summary of Shijiazhuang Qiushi's inventory turnover days for the periods indicated.

	Year ended 31 December 2010	Two months ended 28 February 2011
Inventory turnover days ( <i>Note</i> ) . . . . .	91	698

*Note:* Inventory turnover days equal to inventory divided by cost of sales and multiplied by 60 days (for the period ended from 1 January 2011 to 28 February 2011) or 365 days (for the year ended 31 December 2010).

Inventory turnover days increased from 91 days for the year ended 31 December 2010 to 698 days for the two months ended 28 February 2011. The increase in inventory turnover days was mainly due to inventory level as at 28 February 2011 remained stable as compared with the inventory level as at 31 December 2010 as minimal sales were made during the two months ended 28 February 2011 as a result of Chinese New Year in February.

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### Trade receivables

The trade receivables of Shijiazhuang Qiushi represent the amounts which the clients have been billed but yet to be settled, net of allowance for doubtful debts. Despite there is no fixed credit term granted to different clients, normally the collection period of the majority of our trade receivables ranged from 30 to 180 days. The following table set out an aged analysis of trade receivables by invoice at the end of the reporting period:

	<b>At 31 December 2010 RMB'000</b>	<b>At 28 February 2011 RMB'000</b>
Within 90 days . . . . .	6,972	1,344
91 to 180 days . . . . .	72	1,013
181 to 365 days . . . . .	40	95
1 to 2 years . . . . .	18	43
2 to 3 years . . . . .	—	—
Over 3 years . . . . .	2	2
 Total trade receivables . . . . .	 7,104	 2,497
	 <b>Year ended 31 December 2010</b>	 <b>Two months ended 28 February 2011</b>
Trade receivable turnover days ( <i>Note</i> ) . . . . .	193	397

*Note:* Trade receivable turnover days equal to trade receivables divided by revenue and multiplied by 60 days (for the period from 1 January 2011 to 28 February 2011) or 365 days (for the year ended 31 December 2010).

Trade receivable turnover days increased from 193 days for the year ended 31 December 2010 to 397 days for the two months ended 28 February 2011. The significant increase in trade receivable turnover days for the two months ended 28 February 2011 was mainly due to minimal sales were made during the two months ended 28 February 2011 as a result of Chinese New Year, but the average trade receivable balance was relatively high as at 28 February 2011.

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### Other receivables, deposits and prepayments

The following table set forth the components of Shijiazhuang Qiushi's other receivables, deposits and prepayments.

	At <b>31 December</b> <b>2010</b> <i>RMB'000</i>	At <b>28 February</b> <b>2011</b> <i>RMB'000</i>
Other receivables — non-trade . . . . .	1,050	50
Advances to suppliers . . . . .	75	171
Advances to employee . . . . .	125	155
Deposits . . . . .	<u>110</u>	<u>110</u>
	<u>1,360</u>	<u>486</u>

Other receivables — non-trade as at 28 February 2011 represent amounts due from an Independent Third Party for its funding purpose, which were unsecured and repayable on demand.

Advances to employees mainly represents advances to employees for their traveling expenses in relation to business development activities.

### Trade and other payables

The following table set forth the components of Shijiazhuang Qiushi's trade and other payables outstanding as at the dates indicated.

	At 31 <b>December</b> <b>2010</b> <i>RMB'000</i>	At 28 <b>February</b> <b>2011</b> <i>RMB'000</i>
Trade payables . . . . .	2,684	341
Advances from third parties . . . . .	124	279
Accrued payroll . . . . .	433	461
Other payables . . . . .	<u>234</u>	<u>138</u>
	<u>3,475</u>	<u>1,219</u>

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Trade payables represent amounts payable in connection with the purchase of materials from suppliers and labour costs payable to Shijiazhuang Qiushi's contract workers and/or its subcontractors. The following table set out an aged analysis by date of invoices at the end of the reporting period.

	<b>At 31 December 2010 RMB'000</b>	<b>At 28 February 2011 RMB'000</b>
Within 90 days . . . . .	2,321	131
91 to 180 days . . . . .	282	58
181 to 365 days . . . . .	—	—
1 to 2 years . . . . .	47	108
2 to 3 years . . . . .	34	10
Over 3 years . . . . .	<u>—</u>	<u>34</u>
	<u>2,684</u>	<u>341</u>
Trade payables turnover days ( <i>Note</i> ) . . . . .	112	105

*Note:* Trade payables turnover days equal to trade payables divided by cost of sales and multiplied by 60 days (for the period from 1 January to 28 February 2011) or 365 days (for the year ended 31 December 2010).

The trade payables turnover days decreased from 112 days in 2010 to 105 days for the two months ended 28 February 2011 was mainly due to subsequent settlement to suppliers.

### Cash flow

The following table set forth the cash flow of Shijiazhuang Qiushi during the Track Record Period:

	<b>Year ended 31 December 2010 RMB'000</b>	<b>Two months ended 28 February 2011 RMB'000</b>
Net cash generated from operating activities . . . . .	218	1,937
Net cash generated from (used in) investing activities . . . . .	2,508	(3,405)
Net cash (used in) generated from financing activities . . . . .	(1,595)	1,000
Net increase (decrease) in cash and cash equivalents . . . . .	1,131	(468)
Cash and cash equivalents at beginning of the year/period . . . . .	<u>321</u>	<u>1,452</u>
Cash and cash equivalents at end of the year/period . . . . .	<u>1,452</u>	<u>984</u>

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### **Cash flow from operating activities**

During the Track Record Period, Shijiazhuang Qiushi derived net cash inflow from operations primarily through the receipt of payments for the provision of low-voltage equipment integration services. The cash outflow from operations is used primarily for materials purchases, wages paid to our staff, and other miscellaneous expenses used in operating activities. The net cash generated from operating activities reflects its profit for the year/period, as adjusted for non-cash items such as depreciation, amortisation of intangible assets and gain on disposal of property, plant and equipment and allowance for slow-moving inventory, and the effects of changes in working capital such as increase or decrease in inventories, trade and other receivables and trade and other payables.

The net cash generated from operating activities was approximately RMB1.9 million for the two months ended 28 February 2011, which was primarily attributable to decrease in trade receivables of approximately RMB4.6 million as a result of subsequent settlement by clients. This was partially offset by (i) decrease in trade and other payables of approximately RMB2.3 million as a result of subsequent settlement to suppliers; (ii) increase in other receivables of approximately RMB0.13 million; and (iii) income tax paid of approximately RMB0.2 million.

The net cash generated from operating activities was approximately RMB0.2 million in 2010, which was primarily attributable to (i) profit before taxation of approximately RMB3.8 million; (ii) increase in trade and other payables of approximately RMB3.0 million due to our purchase near year end; and (iii) decrease in other receivables, deposits and prepayments of approximately RMB0.7 million. This was partially offset by (i) increase in trade receivables of RMB6.3 million as a result of the increase in low-voltage equipment integration services near year end; (ii) increase in inventories of approximately RMB0.8 million resulted from more purchase near year end for the projects on hand and (iii) adjustment for non-cash items of approximately RMB0.2 million.

### **Cash flow from investing activities**

Our net cash used in investing activities was approximately RMB3.4 million for the two months ended 28 February 2011. This was primarily attributable to the advance to related parties of approximately RMB3.5 million for their working capital purpose.

Our net cash generated from investing activities was approximately RMB2.5 million in 2010, which was primarily attributable to (i) repayments received from related parties of approximately RMB2.9 million; and (ii) proceeds from disposal of property, plant and equipment of approximately RMB1.4 million. This was partially offset by advances made to related parties of RMB1.7 million.

### **Cash flow from financing activities**

Our net cash generated from financing activities was approximately RMB1.0 million for the two months ended 28 February 2011, which was primarily attributable to advances received from Independent Third Parties.

Our net cash used in financing activities was approximately RMB1.6 million in 2010, which was primarily attributable to (i) repayment made to Independent Third Parties of approximately RMB1.2 million; and (ii) repayment made to related parties of approximately RMB0.6 million. This was partially offset by advances received from related parties of approximately RMB0.2 million.

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### LIQUIDITY AND CAPITAL RESOURCES

We have met our liquidity requirements principally through a combination of cash flow from operations, internal resources, and borrowings from banks and advances from related parties during the Track Record Period. Our principal uses of cash have been, and are expected to continue to be operational costs and investing activities.

#### Cash flow

The following table set forth the cash flow of our Group during the Track Record Period:

	Year ended 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities . . . . .	19,326	8,095
Net cash (used in) generated from investing activities . . . . .	(179)	544
Net cash generated from (used in) financing activities . . . . .	<u>8,691</u>	<u>(12,061)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	27,838	(3,422)
Cash and cash equivalents at beginning of the year . . . . .	<u>19,384</u>	<u>47,222</u>
Cash and cash equivalents at end of the year . . . . .	<u><u>47,222</u></u>	<u><u>43,800</u></u>

#### Cash flow from operating activities

During the Track Record Period, we derived cash inflow from operations primarily through the receipt of payments for the provision of services and sales of goods. Our cash outflow from operations is used primarily for materials purchases, wages paid to our subcontractors and labour agencies, and other miscellaneous expenses used in operating activities. Our net cash generated from or used in operating activities reflects its profit for the year, as adjusted for non-cash items such as depreciation, provision of warranty costs and restructuring costs, and the effects of changes in working capital such as increase or decrease in inventories, trade and bill receivables, other receivables and trade and other payables.

Our net cash generated from operating activities was approximately RMB8.1 million for the year ended 31 December 2011, which was primarily attributable to (i) profit before taxation of approximately RMB61.0 million; and (ii) increase in the trade and other payables of approximately RMB36.1 million as we usually settle our subcontracting costs on installment basis upon the completion of the construction contracts. The above was partially offset by (i) increase in the trade and bill receivables of approximately RMB46.2 million as a result of more projects being completed in December 2011 and such amount was transferred to trade receivables; and (ii) increase in amounts due from customers for contract work of approximately RMB46.6 million as we had more deployment projects in progress at the year end which resulted in higher balance of amounts due from customers for contract work which were accrued but remained unbilled and unsettled since we generally bill our clients after the deployment projects have been completed.



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Our net cash generated from operating activities was approximately RMB19.3 million in 2010 which was primarily attributable to (i) profit before taxation of approximately RMB3.1 million; (ii) adjustment for restructuring costs of approximately RMB13.7 million as it is a non-cash item; (iii) decrease in amounts due from customers for contract work of RMB13.7 million as a result of the increase of construction contracts for deployment service of optical fibers which were completed during the month of December 2010 and such amount were transferred to trade receivables; and (iv) decrease in other receivables, deposits and prepayment of approximately RMB5.6 million as a result of the settlements from those Independent Third Parties due to our Group. This was partially offset by (i) an increase in inventories of approximately RMB0.9 million due to the increase in purchase of materials near year end to meet our projects on hand for deployment services of optical fiber to be commenced in 2011; (ii) an increase in trade and bill receivables of approximately RMB9.3 million as a result of the increase in the number of completed projects for deployment services of optical fibers; and (iii) a decrease of trade and other payables of approximately RMB7.0 million mainly resulting from the decrease in the advance from clients due to the provision of deployment services of optical fibers in 2010.

### **Cash flow from investing activities**

Our net cash generated from investing activities was approximately RMB0.5 million for the year ended 31 December 2011, which was primarily attributable to (i) repayments received from related parties of approximately RMB10.0 million; and (ii) net cash inflow on acquisition of Shijiazhuang Qiushi of approximately RMB1.0 million. This was partially offset by (i) advances made to related parties of RMB3.9 million; (ii) payment for property, plant and equipment of approximately RMB1.9 million; and (iii) increase in the placement of restricted bank deposits of approximately RMB5.3 million.

Our net cash used in investing activities was approximately RMB0.2 million in 2010, which was primarily attributable to (i) repayments received from related parties of approximately RMB12.4 million; (ii) net cash inflow on acquisition of Beijing U-Ton of approximately RMB0.1 million; and (iii) interest received of approximately RMB0.04 million. This was partially offset by (i) advances made to related parties of RMB9.9 million; (ii) payment for property, plant and equipment of RMB1.6 million; and (iii) deposits paid for acquisition of property, plant and equipment of RMB0.7 million.

### **Cash flow from financing activities**

Our net cash used in financing activities was approximately RMB12.1 million during the year ended 31 December 2011, which was primarily attributable to (i) our payment of considerations of RMB20.0 million to Mr. Jiang and Ms. Guo in respect of the acquisitions of Beijing U-Ton and Hebei Changtong on 28 December 2010 and 28 January 2011 respectively. As Mr. Jiang and Ms. Guo became the major shareholders of Partnerfield which in turn indirectly hold Hebei Changtong and Beijing U-Ton after the Reorganisation, such payment was treated as a distribution to shareholders. Mr. Jiang and Ms. Guo repaid to us in aggregate RMB20.0 million due from us in October and November 2011 resulting in no actual cash outflow in our Group under the aforesaid Reorganisation; (ii) repayments made to related parties of approximately RMB10.9 million; and (iii) repayments of bank loans and other borrowings of approximately RMB47.9 million. This was partially offset by net proceeds from new bank loans and other borrowings raised of approximately RMB35.4 million and advance from related parties of approximately RMB31.9 million.

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Our net cash generated from financing activities was approximately RMB8.7 million in 2010, which was primarily attributable to (i) proceeds from new bank loans and other borrowings raised of approximately RMB20.2 million; (ii) advances received from related parties of approximately RMB4.6 million; and (iii) capital injection by Mr. Jiang to Partnerfield of approximately RMB0.1 million. This was partially offset by (i) repayments of bank loans of approximately RMB13.7 million; and (ii) repayments to related parties of approximately RMB2.4 million.

### Financial ratios

The following table set forth, as at the dates indicated, our current ratios, gearing ratios, return on equity and return on total assets:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
Current ratio <sup>(1)</sup> .....	1.4	1.7
Quick ratio <sup>(2)</sup> .....	1.3	1.7
Gearing ratio <sup>(3)</sup> .....	0.7	0.1
	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
Return on equity <sup>(4)</sup> .....	4.5%	50.7%
Return on total assets <sup>(5)</sup> .....	1.5%	25.5%
Interest coverage <sup>(6)</sup> .....	16.5	32.4

*Notes:*

1. Current ratio is the ratio of total current assets to total current liabilities.
2. Quick ratio is calculated as the total assets minus inventories and divided by total current liabilities.
3. Gearing ratio is calculated as debt divided by total equity. Debt includes only bank and other borrowings.
4. Return on equity is calculated by dividing profit for the year by total equity at the end of that year.
5. Return on total assets is calculated by dividing the profit for the year by total assets at the end of that year.
6. Interest coverage is calculated as the profit before finance costs and income tax expense divided by the finance costs for the year.

### Current ratio

Our current ratio as at 31 December 2010 increased from 1.4 to 1.7 as at 31 December 2011, primarily due to an increase in the trade and bill receivables and the amounts due from customers for contract work with the aggregate amount from approximately RMB31.9 million as at 31 December 2010 to approximately RMB129.8 million as at 31 December 2011 as a result of the growth in our business volume and projects completed or in progress during 2011.

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### Quick ratio

The reasons for the fluctuations of quick ratio are similar to that stated in the paragraph headed “Current ratio” above.

### Gearing ratio

Our gearing ratio decreased from 0.7 as at 31 December 2010 to 0.1 as at 31 December 2011 primarily due to the increase in the total equity as at 31 December 2011 as a result of increase in net profits.

### Return on equity and return on total assets

Our profit for the year ended 31 December 2010 was approximately RMB1.6 million after deducting the non-recurring restructuring costs of approximately RMB13.7 million. If the non-recurring restructuring costs of approximately RMB13.7 million had been excluded, our adjusted net profit for the year would have been approximately RMB15.3 million, our adjusted total equity would have been approximately RMB49.0 million and our adjusted total assets would have been approximately RMB116.2 million. Hence our return on equity and return on total assets for the year ended 31 December 2010 would have been 31.3% and 13.2% respectively.

#### *Return on equity*

Our return on equity for the year ended 31 December 2011 was 50.7% as compared with that of 31.3% (after adjustment) for the year ended 31 December 2010. The increase in return on equity was mainly due to the increase in net profit amounted to approximately RMB56.8 million for the year 2011, which has increased by 271.1% compared to the adjusted net profit of approximately RMB15.3 million for the year 2010.

#### *Return on total assets*

Our return on total assets for the year ended 31 December 2011 was 25.5% as compared with that of 13.2% (after adjustment) for the year ended 31 December 2010. The increase in return on equity was mainly due to the increase in net profit amounted to approximately RMB50.7 million for the year 2011, which has increased by approximately 271.1% compared to the adjusted net profit of approximately RMB15.3 million for the year 2010.

### Interest coverage

The interest coverage increased from 16.5 for the year ended 31 December 2010 to 32.4 for the year ended 31 December 2011. The relatively low interest coverage was primarily due to the effect of the non-recurring restructuring costs of approximately RMB13.7 million incurred for the year ended 31 December 2010. Should such costs be excluded, the interest coverage for the year ended 31 December 2010 would be 84.9. After adjustment, the interest coverage decreased from 84.9 for the year ended 31 December 2010 to 32.4 for the year ended 31 December 2011. The decrease was primarily due to the percentage of increase in finance costs outweighed the percentage of increase in profit before interest and tax. The finance cost increased from approximately RMB0.2 million for the year ended 31 December 2010 to approximately RMB1.9 million for the year ended 31 December 2011 resulted from the imputed interest expenses of approximately RMB1.3 million in relation to other

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borrowings of RMB20.3 million and interest expenses incurred on new borrowings raised during the year ended 31 December 2011. While profit before interest and tax increased from approximately RMB17.1 million (after adjustment of non-recurring restructuring costs) in 2010 to RMB63.0 million in 2011.

### NET CURRENT ASSETS

The table below set forth our current assets, current liabilities and net current assets as at the date indicated:

	<b>At 31 December</b>	<b>At 30 April</b>	
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>
<b>Current assets</b>			
Inventories . . . . .	7,249	2,846	3,275
Trade and bill receivables . . . . .	15,053	66,316	48,873
Other receivables, deposits and prepayments . . . . .	6,969	2,682	5,492
Amounts due from customers for contract work . . . . .	16,856	63,480	95,425
Amounts due from related parties . . . . .	861	—	—
Restricted bank deposits . . . . .	601	5,327	1,432
Bank balances and cash . . . . .	<u>47,222</u>	<u>43,800</u>	<u>35,851</u>
<b>Total current assets</b> . . . . .	<u>94,811</u>	<u>184,451</u>	<u>190,348</u>
<b>Current liabilities</b>			
Trade and other payables . . . . .	23,997	61,269	49,403
Amounts due to related parties . . . . .	16,616	39,084	20,000
Bank and other borrowings . . . . .	24,679	5,888	28,375
Provision . . . . .	25	60	72
Income tax payables . . . . .	<u>1,093</u>	<u>2,508</u>	<u>2,580</u>
<b>Total current liabilities</b> . . . . .	<u>66,410</u>	<u>108,809</u>	<u>100,430</u>
<b>Net current assets</b> . . . . .	<u>28,401</u>	<u>75,642</u>	<u>89,918</u>

We had net current assets of approximately RMB89.9 million as at 30 April 2012, as compared to our net current assets of approximately RMB75.6 million as at 31 December 2011. The increase was primarily due to (i) the increase in amounts due from customers for contract work of approximately RMB31.9 million primarily due to 5 projects in Handan, Hengshui, Zhangjiakou and Chengde which commenced work in March and April 2012 and amounted to approximately RMB15.7 million; (ii) decrease in amounts due to related parties of approximately RMB19.1 million primarily due to the repayments to Mr. Li, Hebei Xinhua, Hebei Ruihui, Ms. Ren and Ordillia; and (iii) decrease in trade

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and other payables of approximately RMB7.9 million primarily due to payments made to subcontractors and suppliers. The increase was partially offset by (i) increase in bank and other borrowings of approximately RMB22.5 million primarily for the settlement of amounts due to related parties and other payables; and (ii) decrease in trade and bill receivables of approximately RMB13.4 million primarily due to the settlement from our clients.

For the amounts due to related parties, the sum in aggregate amounted to approximately RMB20.0 million will be waived by such related parties prior to Listing.

We had net current assets of RMB75.6 million as at 31 December 2011, as compared to our net current assets of approximately RMB28.4 million as at 31 December 2010. The increase was primarily due to the increase in the trade and bill receivables of approximately RMB51.3 million and amounts due from customers for contract work of approximately RMB46.6 million, which was partially offset by increase in trade and other payables of approximately RMB33.3 million and increase in amounts due to related parties of approximately RMB22.5 million.

### WORKING CAPITAL

#### Statement of working capital sufficiency:

Our Directors believe that after taking into account our cash flows from operations and the net proceeds from the Placing, we will have sufficient working capital for our operations in the next 12 months from the date of this prospectus.

#### Financial resources of our Group:

The financial resources of our Group available for our use as at 31 December 2011 are set out as below:

- as at 31 December 2011, we had cash and bank balances of RMB43.8 million; and
- as at 31 December 2011, we had total bank facilities of RMB20.0 million, of which approximately RMB5.0 million were utilised and approximately RMB15.0 million were not utilised.

The capital expenditure for the years ending 31 December 2012 and 2013, is expected to be financed by our operating cash flows, the net proceeds from the Placing and/or proceeds from our bank borrowings.

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### CAPITAL EXPENDITURE

Our capital expenditure incurred during the Track Record Period primarily relate to the purchase of property, plant and equipment and acquisition of business. We have funded our historical capital expenditures through internal resources, other borrowings, borrowings from banks and issuance of shares. The following table set out our capital expenditures for the periods indicated.

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment . . . . .	1,688	2,564
Deemed acquisition of Former Partnerfield Group . . . . .	13,738	—
Acquisition of Shijiazhuang Qiushi . . . . .	—	9,699
	<u>15,426</u>	<u>12,263</u>

We expect to incur capital expenditures of approximately RMB22.6 million, RMB23.6 million and RMB4.0 million on purchase of property, plant and equipment, securing strategic assets and acquisition for the years ending 31 December 2012, 2013 and 2014, respectively. We anticipate that the funds needed for our capital expenditures will be financed by cash generated from our operations, net proceeds from the Placing and/or bank borrowings.

Our ability to obtain additional funding in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the jurisdictions in which we operate.

### INDEBTEDNESS

The following table set forth components of our indebtedness as at the dates indicated.

	<b>At 31 December</b>		<b>At 30 April</b>
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings . . . . .	9,997	4,956	7,843
Unsecured other borrowings . . . . .	14,682	932	20,532 <sup>(Note)</sup>
Amounts due to related parties . . . . .	<u>16,616</u>	<u>39,084</u>	<u>20,000</u>
	<u>41,295</u>	<u>44,972</u>	<u>48,375</u>

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*Note:*

The unsecured other borrowings as at 30 April 2012 comprised the following three loans:

1. On 25 November 2011, Partnerfield (as borrower) entered into a loan agreement with a company in Hong Kong (as lender), an Independent Third Party, in relation to a one-year term loan of HK\$2,800,000, which was unsecured and carried interest of 10% per annum. The Group has repaid HK\$1,650,000 before 30 April 2012, and the remaining outstanding amount was HK\$1,150,000 (equivalent to approximately RMB930,580) as at 30 April 2012. Pursuant to the loan agreement, Mr. Jiang has provided a personnel guarantee to the lender, which was subsequently released on 25 April 2012.
2. On 14 March 2012, Partnerfield (as borrower) entered into another loan agreement with the said company in Hong Kong (as lender), an Independent Third Party, in relation to a one-year term loan of principal amount of HK\$9,471,220 (equivalent to approximately RMB7,664,111), which was interest-free and unsecured. After the fair value adjustment of approximately HK\$411,284 (equivalent to approximately RMB332,811) due to the interest-free nature of the loan, the fair value of unsecured other borrowing was HK\$9,059,936 (equivalent to approximately RMB7,331,300) as at 30 April 2012. As Partnerfield is an investment holding company with no business operation, it will be commercially more practical for Partnerfield to obtain an unsecured loan denominated in HK dollars from Independent Third Party in Hong Kong instead of from financial institutions of which the loan was used to settle part of the listing expenses. The loan was interest-free as it was short term in nature and the Directors expect to repay the loan shortly after Listing. In view of the insignificant amount of finance costs, the lender agreed not to charge any interest on the loan.
3. On 6 March 2012, Hebei Deer (as borrower) entered into a loan agreement with an individual (as lender), an Independent Third Party, in relation to a one-year term loan of principal amount of RMB13.0 million, which was interest-free and unsecured. After the fair value adjustment of approximately RMB729,688 due to the interest-free nature of the loan, the fair value of unsecured other borrowing was RMB12,270,312 as at 30 April 2012. The loan was used to repay the amounts due to Mr. Li and Ms. Ren for the acquisition of Shijianzhuang Qiushi by Hebei Deer on 28 February 2011. As Hebei Deer is an investment holding company with no business operation, it will be commercially more practical for Hebei Deer to obtain an unsecured loan from Independent Third Party instead of from financial institutions. The loan was interest-free as it was short term in nature and the Directors expect to repay the loan shortly after Listing. In view of the insignificant amount of finance costs, the lender agreed not to charge any interest on the loan.

### Statement of indebtedness

As at the close of business on 30 April 2012, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this prospectus, the Group had outstanding amounts due to related parties of approximately RMB20,000,000, which will be waived by such related parties prior to Listing and bank and other borrowings of approximately RMB28,375,000 (of which RMB7,843,000 was secured by the trade receivables of a subsidiary of the Group) and the contingent liability for the injury claim amounted to approximately RMB450,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 April 2012, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in our indebtedness and contingent liabilities since 30 April 2012.

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### CONTRACTUAL OBLIGATIONS AND CONTINGENT AND OTHER LIABILITIES

#### Contractual obligations

During the Track Record Period, our contractual obligations consisted of our operating leases, which represented leases of our offices. For the two years ended 31 December 2010 and 2011, minimum lease payments paid under our operating leases totaled approximately RMB0.6 million and RMB1.4 million, respectively. The following table set forth the schedule of our commitments for future minimum operating lease payments as at the dates indicated.

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year . . . . .	137	1,265
In the second to fifth year inclusive. . . . .	<u>163</u>	<u>1,027</u>
	<u>300</u>	<u>2,292</u>

#### Contingent liabilities

Hebei Changtong has been named as a defendant in the Shijiazhuang Changan District People's Court and the Hebei Shijiazhuang Intermediate People's Court action in respect of an alleged compensation for injuries. The potential claim amount shall be subject to the actual damages, including medical and rehabilitation expenses, transportation, etc., reasonably incurred by the applicant and the maximum amount of the claim against our Group will be determined by the court.

According to the Directors' best estimation by reference to a legal advice, the injury claim amount will be approximately RMB450,000, which was provided during the year ended 31 December 2011.

### CAPITAL COMMITMENTS

As at 31 December 2010 and 2011, the Group has the following capital commitments which are not provided for in the Group's financial statements:

	<b>As at 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statement	<u>50</u>	<u>83</u>

### OFF-BALANCE SHEET AGREEMENT

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured



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finance or special purpose entities, which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

#### Capital Risk Management

We manage our capital to ensure that members of our Group will be able to continue as a going concern while maximising the return to our Shareholders through the optimisation of the debt and equity balance.

The capital structure of our Group consists of net debt, which includes the borrowings, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

Our Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to balance its overall capital structure.

#### Financial risk management objectives and policies

We are exposed to various types of market risks, including credit risk, liquidity risk, interest rate risks and foreign exchange risks in our ordinary course of business.

#### *Credit risk*

Our maximum exposure to credit risk which would cause a financial loss to us due to failure by a counterparty to discharge an obligation arose from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise our credit risk, we will conduct assessment and evaluation on client's credit reliability and periodic review of their financial status to determine credit limit to be granted. In this regard, our Directors consider that our credit risk on receivables is reduced. For details of our credit control, please refer to section headed "Financial information — Trade and bill receivables and amounts due from customers for contract work — Credit evaluation system and review procedures" in this prospectus.

Our largest debtors accounted for approximately 59% and 60%, as at 31 December 2010 and 31 December 2011, respectively, of the Group's total trade and bill receivables.

The amounts due from related parties as at 31 December 2010 and 31 December 2011 also presents a credit risk to us. We assessed such credit risk by reviewing the historical and subsequent payments from the related parties during the Track Record Period and consider the default risk on the amounts due from related parties to be not significant.

We believe that our credit risk on liquid funds is limited because our counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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### *Liquidity risk*

Our objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings. Our Directors closely monitor the liquidity position and expect to have adequate sources of funding to finance our projects and operations.

### *Interest rate risk*

We are exposed to cash flow interest rate risk in relation to variable-rate bank borrowings balances. We currently do not have an interest rate hedging policy. However, our management monitors our interest rate exposure and will consider hedging the risk exposures should the need arise.

Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from our bank borrowings. Our exposures to interest rates on financial liabilities are detailed in the following table.

	<b>Effective interest rate</b>	<b>Carrying amount</b> <i>RMB'000</i>
<b>As at 31 December 2010</b>		
Trade and other payables .....	—	23,032
Amounts due to related parties .....	—	16,616
Bank borrowings - variable rate .....	5.84%	9,997
Other borrowings - interest-bearing .....	5.13%	10,122
Other borrowings - interest-free .....	—	<u>4,560</u>
		<u><u>64,327</u></u>
<b>As at 31 December 2011</b>		
Trade and other payables .....	—	57,053
Amounts due to related parties .....	—	39,084
Bank borrowings - variable rate .....	7.26%	4,956
Other borrowings - fixed rate .....	10.00%	<u>932</u>
		<u><u>102,025</u></u>

### *Foreign currency risk*

We have bank balances and cash, other payables and other borrowings which are denominated in foreign currencies and consequently we have foreign exchange risk exposure from year end translation of amount denominated in foreign currencies. We do not hedge its exposure in this respect but monitors these closely.

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### **DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES**

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure obligation under Rules 17.15 to 17.21 of the GEM Listing Rules.

### **DIVIDENDS**

For the two years ended 31 December 2010 and 2011, we did not declare any dividends. After the Listing, the distribution of dividends shall be formulated by the Board and is subject to Shareholders' approval in general meeting. At present, our Directors intend, subject to certain limitations, and in the absence of any circumstances which might reduce the amount available for distribution whether by losses or otherwise, to distribute to the Shareholders not more than 25% of our profits available for distribution for financial years subsequent to the Listing. The amount of dividends distributable to Shareholders will also depend upon our earnings and financial condition, operating requirements, capital requirements and other conditions that our Directors may deem relevant at such time.

Our Company is a holding company incorporated in the Cayman Islands and its ability to pay dividends depends substantially on the payment of dividends to our Company by its subsidiaries in the PRC. In particular, the subsidiaries of our Company in the PRC may pay dividends only out of their accumulated distributable profits, if any, determined in accordance with their respective articles of association, and the accounting standards and regulations in the PRC. Moreover, pursuant to applicable PRC laws and regulations, each of the subsidiaries of our Company in the PRC is required to set aside a certain amount of its accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if any of these subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to our Company.

### **DISTRIBUTABLE RESERVE**

As at 31 December 2011, the Company had no reserve available for distribution to the Shareholders.

### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company which has been prepared for the purpose of illustrating the effect on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2011 as if the Placing had been taken place on 31 December 2011. The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2011 as shown in the Accountants' Report set forth in Appendix I to this prospectus and is adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 December 2011 or at any future dates after the completion of the Placing.

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	<b>Consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2011</b>	<b>Add: Estimated net proceeds from the Placing</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Notes 2 &amp; 5)</i>	<i>(Note 3)</i>	<i>Equivalent (Notes 4 &amp; 5)</i>	
Based on the Placing Price of HK\$0.34 per Placing share	82,059	99,354	181,413	0.11	0.13

*Notes:*

1. The consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2011 have been calculated based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2011 of approximately RMB112,169,000 as set out in the Accountants' Report set forth in Appendix I to this Prospectus after deducting goodwill and intangible assets of approximately RMB30,110,000. The intangible assets mainly consist of software licences.
2. The estimated net proceeds from the Placing are based on 420,000,000 Placing Shares and the Placing Price of HK\$0.34 per Placing Share, after deducting underwriting fees and other related expenses paid/payable by the Company. Estimated net proceeds from the Placing do not take into account any Shares that the Company may issue upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme.
3. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group that were entered into subsequent to 31 December 2011.
4. We calculated the unaudited pro forma adjusted consolidated net tangible assets per Share referred to in the preceding paragraphs and on the basis of 1,680,000,000 Shares which comprise shares in issue as at 31 December 2011 and assuming that the Capitalisation Issue and the Placing had been completed on 31 December 2011. The unaudited pro forma adjusted consolidated net tangible assets per Share do not take into account any Shares that the Company may issue upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme.
5. The translation between Renminbi and Hong Kong dollars has been made at the rate of RMB0.8107 to HK\$1.00, the PBOC Rate prevailing at 31 December 2011. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollar, or vice versa, at that rate or at any other rates or at all.

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### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 December 2011. Our Directors confirm that they had performed sufficient due diligence on us to ensure that, as at the date of this prospectus, there has been no material adverse change in our financial position or prospects since 31 December 2011 and there is no event since 31 December 2011 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

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## BUSINESS OBJECTIVE AND FUTURE PLANS

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### BUSINESS OBJECTIVE AND STRATEGIES

Our business objective is to become a significant optical fiber deployment service provider for telecommunication operators in the PRC. By adopting our business strategies set out below, we plan to strengthen our position in our home market of Hebei Province, to expand our client network through marketing efforts by our sales and marketing team and to capture business opportunities in China by recruiting more engineering professionals and establishing local teams in new markets.

We intend to achieve our business objective by adopting the following strategies:

1. *Further strengthening our deployment services of optical fibers in the PRC*

Our deployment services of optical fibers use traditional deployment methods as well as micro-ducts and mini-cables system integration methods. The application of a combination of different deployment methods allows us to provide flexible solutions to our clients based on physical circumstances of specific projects. Our Directors believe that this advantage would allow us to seize business opportunities in the near future.

In order to maintain our competitiveness and match up with our business strategies, we intend to apply approximately HK\$26.18 million, representing approximately 23.5% of the net proceeds from the Placing, in purchasing vehicles and pipe jacking machines for our deployments services of optical fibers and other equipment required for our provision of maintenance services. Besides, given that we intend to extend our deployment services of optical fibers by means of our micro-ducts and mini-cables system integration methods to those provinces or cities where we have built experimental sections in respect of micro-ducts and mini-cables system integration methods. As at the Latest Practicable Date, experimental sections were successfully built in Liaoning Province, Shaanxi Province, Beijing, Anhui Province and Jilin Province where we plan to expand our business in 2012 and we have obtained construction contracts in Liaoning Province, Shaanxi Province and Beijing.

As the implementation of the micro-ducts and mini-cables system integration methods matures in the provinces and cities referred to above, we intend to expand our business to other provinces and cities in the PRC with populations of over 500,000 from 2013 onwards. Hence, in order to explore the feasibility and lay down the business pipeline regarding our deployment services of optical fibers to other provinces and cities in the PRC after 2013, we intend to utilise approximately HK\$12.20 million, representing approximately 11.0% of the net proceeds from the Placing, to build 20 experimental sections in targeted cities and provinces in the PRC.

To enhance our local presence and understanding of our clients' needs, we intend to set up two representative offices in two of the aforesaid provinces and cities in the PRC. We also intend to expand our sales and marketing network by attending industry related conferences and tradeshows and launching marketing campaigns which include offering sponsorships to corporate events organised by telecommunication operators in the PRC to promote our corporate image. We plan to apply approximately HK\$2.30 million, representing approximately 2.1% of the net proceeds from the Placing, and HK\$1.00 million, representing approximately 0.9% of the net proceeds from the Placing, in these two aspects, respectively.

If the results of the experimental sections are satisfactory, we intend to apply approximately HK\$23.42 million, representing approximately 21.0% of the net proceeds from the Placing, to secure relevant assets or rights which are necessary for our deployment services of optical fibers by means

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## BUSINESS OBJECTIVE AND FUTURE PLANS

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of micro-ducts and mini-cables system integration methods so as to enhance our competitiveness in the local markets of the targeted provinces or cities. If there exists any unsatisfactory results of experimental sections in a particular location, we will reallocate the net proceeds which are originally planned to apply in such location to other locations where the experimental sections were successfully built such as Liaoning Province, Shaanxi Province, Beijing, Anhui Province and Jilin Province.

Of the HK\$83.60 million, approximately HK\$12.20 million, representing approximately 11.0% of the net proceeds from the Placing, is planned as reserve for potential future acquisitions of companies which engage in similar business. We believe that our market position will be strengthened and our ability to fend off the competition will be enhanced through the acquisitions. At the Latest Practicable Date, our Directors confirmed that our Group has not identified any acquisition targets or entered into any agreement or negotiation nor did we have any definite plans at present in relation to any potential acquisition.

We intend to apply approximately HK\$2.60 million, representing approximately 2.3% of the net proceeds from the Placing, for recruiting additional technical staff and providing training to our existing staff, as well as conducting research and development on the equipment and technologies adopted when applying the micro-ducts and mini-cables system integration methods. We also intend to apply approximately HK\$3.7 million, representing approximately 3.3% of the net proceeds from the Placing, to continue exploring collaboration opportunities with different entities, such as telecommunication operators in the PRC and universities, in order to keep abreast of trends and developments of the deployment of optical fibers industry.

At present, we plan to expand our business of deployment of optical fibers by utilising an aggregate amount of approximately HK\$83.60 million, representing approximately 75.1% of the net proceeds from the Placing.

### ***2. Expanding our business of low-voltage equipment integration services in the PRC***

In order to broaden the revenue stream, we acquired Shijiazhuang Qiushi on 1 March 2011, as a result of which we also provide low-voltage equipment integration services to clients such as financial institutions, governmental departments, road and transportation companies, state-owned and private companies in the PRC. Shijiazhuang Qiushi is principally engaged in the provision of low-voltage equipment integration services.

We plan to expand our business of low-voltage equipment integration services. As this business is a new addition by way of a recent acquisition, we expect to fully integrate the business to our Group in the short term and to expand our sales and marketing network for the low-voltage equipment integration services business in the long term. Currently, we intend to expand our sales and marketing network by way of promotion including attending industry related conferences and tradeshow and intend to utilise approximately HK\$2.40 million, representing approximately 2.2% of the net proceeds from the Placing.

## BUSINESS OBJECTIVE AND FUTURE PLANS

### IMPLEMENTATION PLANS

We will endeavour to achieve the following milestone events during the period from the Latest Practicable Date to 31 December 2014, and their respective scheduled completion time are based on certain bases and assumptions as set out in section headed “Business objective and future plans - Bases and assumptions” in this prospectus. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed “Risk factors” in this prospectus. Therefore, there is no assurance that the our business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all.

Based on the current state of the industry, our Directors intend to carry out the following implementation plans:

#### 1. *Further strengthening our deployment services of optical fibers in the PRC*

	From the Latest Practicable Date to 30 June 2012 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2012 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 30 June 2013 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2013 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 30 June 2014 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2014 <i>(estimated application of proceeds, in HK\$ (million))</i>	Sub-total <i>HK\$ (million)</i>
<b>Investment in equipment</b>	—	Purchasing pipe jacking machines and vehicles and other equipment for the maintenance services and construction projects				—	
	—	9.52	6.9	4.88	4.88	—	<b>26.18</b>
<b>Market expansion</b>	—	Building six experimental sections	Building ten experimental sections	Building two experimental sections	Building two experimental sections	—	
	—	3.66	6.10	1.22	1.22	—	<b>12.20</b>
	—	Establishing one representative office	Establishing one representative office	—	—	—	
	—	1.15	1.15	—	—	—	<b>2.30</b>
	—	Expanding sales and marketing network by way of promotion, conferences and sponsorships		—	—	—	
	—	0.5	0.5	—	—	—	<b>1.00</b>
<b>Securing strategic assets/rights</b>	—	Payment of consideration for securing strategic assets/rights			—	—	
	—	6.10	13.66	3.66	—	—	<b>23.42</b>



## BUSINESS OBJECTIVE AND FUTURE PLANS

	From the Latest Practicable Date to 30 June 2012 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2012 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 30 June 2013 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2013 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 30 June 2014 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2014 <i>(estimated application of proceeds, in HK\$ (million))</i>	Sub-total <i>HK\$ (million)</i>
<b>Acquisition</b>	—	Possible acquisition of company(ies) which engage(s) in similar business 12.20	—	—	—	—	<b>12.20</b>
<b>Human resources</b>	—	Recruitment of additional technical staff and provision of training to existing staff 1.00	1.00	0.60	—	—	<b>2.60</b>
<b>Research and development</b>	—	Conducting research and development on the equipment and technologies adopted when applying the micro-ducts and mini-cables system integration methods 1.30	0.60	0.60	0.60	0.60	<b>3.70</b>
<b>Sub-total <i>HK\$ (million)</i></b>	—	<b>35.43</b>	<b>29.91</b>	<b>10.96</b>	<b>6.7</b>	<b>0.60</b>	<b>83.60</b>

### 2. *Expanding our business of low-voltage equipment integration services in the PRC*

	From the Latest Practicable Date to 30 June 2012 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2012 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 30 June 2013 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2013 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 30 June 2014 <i>(estimated application of proceeds, in HK\$ (million))</i>	For the six months ending 31 December 2014 <i>(estimated application of proceeds, in HK\$ (million))</i>	Sub-total <i>HK\$ (million)</i>
<b>Sales and marketing</b>	—	Expanding sales and marketing network by way of promotion, conferences and sponsorships 1.2	0.60	0.60	—	—	<b>2.40</b>
<b>Sub-total <i>HK\$ (million)</i></b>	—	<b>1.2</b>	<b>0.60</b>	<b>0.60</b>	—	—	<b>2.40</b>

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## BUSINESS OBJECTIVE AND FUTURE PLANS

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### BASES AND ASSUMPTIONS

Potential investors should note that the attainability of our business objective depends on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, foreign trade or economic conditions in Hong Kong and the PRC;
- there will be no material changes in the bases or rates of taxation in the PRC;
- the Placing will be completed in accordance with and as described in the section headed “Structure and conditions of the Placing” in this prospectus;
- there will be no significant changes in the interest rates or the foreign currency exchange rate from those currently prevailing;
- our Group will retain key staff in the management and the professional teams;
- there will be no significant changes in our business relationships with our existing strategic, business partner, major clients and suppliers;
- we are not materially adversely affected by any risk factor set out in the section headed “Risk factors” in this prospectus;
- we will be able to continue its operations in substantially the same way as we have been operating and we will also be able to carry out its development plans without disruptions; and
- there will be no material changes in the funding required for each of the scheduled achievements as set out in the section headed “Business objective and future plans — Implementation plans” in this prospectus.

## BUSINESS OBJECTIVE AND FUTURE PLANS

### REASON FOR THE PLACING AND DETAILS OF THE USE OF PROCEEDS

Our Company intends to raise funds by the Placing in order to pursue its business objectives as set out in the section headed “Business objective and future plans — Business objective” in this prospectus. Our Directors believe that the Listing will enhance our profile and recognition and the net proceeds from the Placing will strengthen our financial position such that we are fully equipped to pursue the business plans as set out in the section headed “Business objective and future plans — Implementation plans” in this prospectus.

At the Placing Price of HK\$0.34 and assuming the Over-allotment Option is not exercised, the net proceeds from the Placing, after deducting related expenses, are estimated to amount to approximately HK\$111.4 million. We intend to apply such net proceeds from the Placing as follows:

	From the Latest Practicable Date to 30 June 2012 HK\$ (million)	For the six months ending 31 December 2012 HK\$ (million)	For the six months ending 30 June 2013 HK\$ (million)	For the six months ending 31 December 2013 HK\$ (million)	For the six months ending 30 June 2014 HK\$ (million)	For the six months ending 31 December 2014 HK\$ (million)	Total HK\$ (million)
1. Further strengthening our deployment services of optical fibers in the PRC							
- Investment in equipment	—	9.52	6.9	4.88	4.88	—	26.18
- Market expansion	—	5.31	7.75	1.22	1.22	—	15.50
- Securing strategic assets/rights	—	6.10	13.66	3.66	—	—	23.42
- Acquisition	—	12.20	—	—	—	—	12.20
- Human resources	—	1.00	1.00	0.60	—	—	2.60
- Research and development	—	1.30	0.60	0.60	0.60	0.60	3.70
Sub-total	—	35.43	29.91	10.96	6.7	0.60	83.60
2. Expanding our business of low-voltage equipment integration services in the PRC							
- Sales and marketing	—	1.20	0.60	0.60	—	—	2.40
3. Repayment of bank and other borrowings	—	14.30	—	—	—	—	14.30
4. General working capital	—	11.10	—	—	—	—	11.10
<b>Total net proceeds</b>	<b>—</b>	<b>62.03</b>	<b>30.51</b>	<b>11.56</b>	<b>6.7</b>	<b>0.60</b>	<b>111.40</b>

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## **BUSINESS OBJECTIVE AND FUTURE PLANS**

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According to current estimates, our Directors expect that the net proceeds from the Placing of approximately HK\$111.4 million, the cash in bank and on hand, and bank facilities available to us as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient to finance the implementation of our future plans up to 31 December 2014.

If the Over-allotment Option is exercised in full, the net proceeds from the Placing will increase to approximately HK\$131.8 million. In such event, the net proceeds so increased will be used in the same proportions as disclosed above.

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## UNDERWRITING

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### UNDERWRITERS

#### Lead Manager

Guotai Junan Securities (Hong Kong) Limited

#### Co-Managers

Ample Orient Capital Limited  
Ever-Long Securities Company Limited  
Hong Kong International Securities Limited  
South China Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### The Underwriting Agreement

In connection with the Placing, it is expected that the Company will enter into the Underwriting Agreement, among other parties, with the Underwriters. Under the Underwriting Agreement, subject to the terms and conditions set out therein, the Underwriters would severally agree to procure subscribers for, or failing which, to themselves subscribe as principal for, the Placing Shares being offered pursuant to the Placing. The Underwriting Agreement is subject to various conditions, among others, the Listing Division of the Stock Exchange granting listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the Capitalisation Issue and upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme). The Underwriting Agreement may be terminated for the reasons set out in “Grounds for termination” in this section. Potential investors should be reminded that in the event that the Underwriting Agreement is not entered into or if the Underwriters exercise their termination rights as referred to below, the Placing will not proceed.

### GROUND FOR TERMINATION

The Lead Manager (for itself and on behalf of the Underwriters) shall have the absolute right which is exercisable by the Lead Manager (for itself and on behalf of the Underwriters) to terminate the arrangements set out in the Underwriting Agreement by notice in writing given to our Company (for itself and on behalf of our Controlling Shareholders) by the Lead Manager (for itself and on behalf of the Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) if there shall develop, occur, exist or come into effect:
  - (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the BVI, the Cayman Islands or any relevant jurisdiction; or
  - (ii) any adverse change (whether or not permanent) in local, national or international stock market conditions; or

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## UNDERWRITING

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- (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, the BVI, the Cayman Islands or any relevant jurisdiction; or
- (v) any change in the business or in the financial or trading position of the Group or otherwise; or
- (vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the PRC, the BVI, the Cayman Islands or any relevant jurisdiction; or
- (vii) a general moratorium on commercial banking business activities in Hong Kong or any relevant jurisdiction declared by the relevant authorities; or
- (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out,

which in the opinion of the Lead Manager (for itself and on behalf of the Underwriters):

- (i) might be adverse to the business, financial condition or prospects of our Group taken as a whole; or
  - (ii) might have an adverse effect on the success of the Placing or might have the effect of making any part of the Underwriting Agreement incapable of implementation or performance in accordance with its terms; or
  - (iii) makes it inadvisable or inexpedient to proceed with the Placing.
- (b) it comes to the notice of the Lead Manager:
- (i) any matter or event showing any of the warranties of the Underwriting Agreement to be untrue, inaccurate or misleading when given or repeated or any breach of any of the warranties or any other provision of the Underwriting Agreement any party hereto (other than the Sponsor, the Lead Manager and the Underwriters), which is considered, in the opinion of the Lead Manager (for itself and on behalf of the Underwriters), to be material in the context of the Placing; or
  - (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus and the placing letter, would have constituted a material omission in the opinion of the Lead Manager (for itself and on behalf of the Underwriters) in the context of the Placing; or

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## UNDERWRITING

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- (iii) any statement contained in this prospectus and the placing letter which is discovered to be or becomes untrue, incorrect or misleading in any respect and in the opinion of the Lead Manager (for itself and on behalf of the Underwriters) to be material in the context of the Placing; or
- (iv) any event, act or omission which gives rise or is likely to give rise to any material liability of our Company and any of our Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreement,

the Lead Manager (for itself and on behalf of the Underwriters) shall be entitled (but not bound) by notice in writing to our Company (for itself and on behalf of our Controlling Shareholders) on or prior to such time to terminate the Underwriting Agreement.

## UNDERTAKINGS

Under the Underwriting Agreement,

- (A) (a) Each of our Controlling Shareholders undertakes to and covenants with our Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that, save as permitted under the GEM Listing Rules, he/she/it shall not and shall procure that the relevant registered holders shall not:
  - (i) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholder is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), sell, dispose of, nor enter into any agreement to dispose of or otherwise create any Encumbrances (as defined below) in respect of, any of the Shares in respect of which he/she/it is shown in this prospectus to be the beneficial owner(s); and
  - (ii) in the period of six months commencing on the date immediately following the date on which the First Six-month Period expires, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect (“**Encumbrances**”) in respect of any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such Encumbrances, he/she/it would cease to be a Controlling Shareholder of our Company,

**PROVIDED THAT** such restrictions shall not apply to any Shares which our Controlling Shareholders or any of his/her/its respective associates may acquire or become interested in following the Listing Date.

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## UNDERWRITING

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- (b) Each of our Controlling Shareholders undertakes to and covenants with our Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that:
  - (i) in the event that he/she/it pledges or charges any of his/her/its direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in paragraph (a) above, he/she/it must inform our Company, the Sponsor and the Lead Manager immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
  - (ii) having pledged or charged any of his/her/its interests in the Shares under paragraph (i) above, he/she/it must inform our Company and the Lead Manager immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected.
  
- (B) Our Company undertakes to and covenants with the Sponsor, the Lead Manager and the Underwriters, and each of our Controlling Shareholders jointly and severally undertakes to and covenants with the Sponsor, the Lead Manager and the Underwriters to procure that, save pursuant to the Placing or the Capitalisation Issue, our Company shall not, within the period of six months from the Listing Date:
  - (i) save for the exercise of the Over-allotment Option and save as permitted under the GEM Listing Rules (including but not limited to rule 17.29 of the GEM Listing Rules) and the applicable Laws, allot or issue or agree to allot or issue any Shares or any other securities in our Company (including warrants or other convertible securities (and whether or not of a class already listed)); or
  - (ii) grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise convert into, or exchange for any Shares or any other securities of our Company; or
  - (iii) purchase any securities of our Company; or
  - (iv) offer to or agree to do any of the foregoing or announce any intention to do so.

### COMMISSION AND EXPENSES

The Underwriters are expected to receive a commission of 3.5% of the aggregate Placing Price of all the Placing Shares. The Sponsor will, in addition, receive an advisory and documentation fee to the Placing. The aggregate fees and commission, together with the Stock Exchange listing application fee, Stock Exchange trading fee and SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Placing, are currently estimated to be approximately HK\$31.4 million in aggregate, which will be borne by our Company.



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## UNDERWRITING

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### UNDERWRITERS' INTERESTS IN THE COMPANY

Save as disclosed in this prospectus and as contemplated pursuant to the Underwriting Agreement, none of the Underwriters has any shareholding in any member of our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company.

### MINIMUM PUBLIC FLOAT

Our Directors and the Lead Manager will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23(9) of the GEM Listing Rules after completion of the Placing.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### PLACING PRICE

The Placing Price is HK\$0.34. Subscribers, when subscribing for the Shares, shall pay the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. Accordingly, investors shall pay HK\$3,434.28 for every board lot of 10,000 Shares.

The level of indications of interests in the Placing and the basis of allocations of the Placing Shares will be announced on the GEM website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.chinauton.com](http://www.chinauton.com) on or before Monday, 11 June 2012.

### CONDITIONS OF THE PLACING

The Placing is conditional upon:

- (a) the Listing Division of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as described in this prospectus; and
- (b) the obligations of the Underwriters under the Underwriting Agreement becoming and remaining unconditional (including if relevant, as a result of the waiver of any condition(s) by the Lead Manager (for itself and on behalf of the Underwriters)), and not having been terminated in accordance with the terms of the Underwriting Agreement,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If these conditions are not fulfilled or (where applicable) waived by the Lead Manager (for itself and on behalf of the Underwriters) on or before the day which is the 30th day after the date of this prospectus, the Placing shall lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Placing will be caused to be published by our Company on the GEM website at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.chinauton.com](http://www.chinauton.com) on the next business day immediately following the date of such lapse.

### THE PLACING

The Company is initially offering 420,000,000 Placing Shares for subscription by way of the Placing, representing 25% of the Company's enlarged issued share capital at the time after completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised). Subject to the terms and conditions of the Underwriting Agreement, the Placing Shares are fully underwritten by the Underwriters.

The Underwriters or agents nominated by them on behalf of the Company will conditionally place the Placing Shares at the Placing Price plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy with professional, institutional and individual investors.

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## **STRUCTURE AND CONDITIONS OF THE PLACING**

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Allocation of the Placing Shares will be 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 acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its Shareholders as a whole.

Subject to prior written consent of the Stock Exchange, no allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

### **OVER-ALLOTMENT OPTION**

The Lead Manager or its agent on behalf of the Underwriters can exercise the Over-allotment Option, which will be exercisable at any time from the Listing Date up to (and including) the date which is 30th day after the Listing Date. Pursuant to the Over-allotment Option, the Lead Manager or its agent will have the right to require the Company to allot and issue up to an aggregate of 63,000,000 additional new Shares, representing in aggregate up to 15% of the Placing Shares initially available under the Placing. These Shares will be issued at the Placing Price.

If the Over-allotment Option is exercised, in full or in part, our Company will make an announcement.

If the Over-allotment Option is exercised in full, the additional Placing Shares will represent approximately 3.61% of our Company's enlarged number of Shares in issue following completion of the Placing and the Capitalisation Issue and the exercise of such Over-allotment Option but without taking into account any Shares which may fall to be issued upon the exercise of any option that may be granted under the Share Option Scheme.

### **STOCK BORROWING**

In order to facilitate settlement of over-allocations in connection with the Placing, the Lead Manager and Bright Warm has entered into the Stock Borrowing Agreement. Under the Stock Borrowing Agreement, Bright Warm agreed with the Lead Manager that if requested by the Lead Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Lead Manager up to 63,000,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the Placing on the conditions that:

- (i) such stock borrowing arrangement will only be effected by the Lead Manager for settlement of over-allocations of Shares in connection with the Placing;
- (ii) the maximum number of Shares which may be borrowed from Bright Warm by the Lead Manager under the Stock Borrowing Agreement must not exceed the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- (iii) the same number of Shares so borrowed must be returned to Bright Warm or its nominees, as the case may be, on or before the 3rd business day following the earlier of:
  - (a) the last day for exercising the Over-allotment Option; or

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## STRUCTURE AND CONDITIONS OF THE PLACING

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- (b) the day on which the Over-allotment Option is exercised in full;
- (iv) the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- (v) no payments or other benefits will be made to Bright Warm by the Lead Manager or any of the Underwriters in relation to such stock borrowing arrangement.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Placing Price.

In connection with the Placing, the Lead Manager and/or its affiliates and agents, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the Listing Date, i.e. Thursday, 12 July 2012. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Lead Manager or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Lead Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days after the Listing Date. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 63,000,000 Shares, which is 15% of the Placing Shares initially available under the Placing.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes: (i) over-allocation for the purpose of preventing or minimising 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 minimising 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 minimising 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 Placing Shares should note that:

- the Lead Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Lead Manager, or any person acting for it, will maintain such a position;

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## STRUCTURE AND CONDITIONS OF THE PLACING

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- liquidation of any such long position by the Lead Manager may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Placing Price, and is expected to expire on the 30th day after the Listing Date. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Placing Price either during or after the stabilising period by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Placing Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Placing, the Lead Manager may over-allocate up to and not more than an aggregate of 63,000,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Lead Manager or its agent on behalf of the Underwriters, or by making purchases in the secondary market at prices that do not exceed the Placing Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, the Lead Manager may borrow up to 63,000,000 Shares from Bright Warm, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement entered into between the Lead Manager and Bright Warm. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Bright Warm by the Lead Manager or any of the Underwriters in relation to the stock borrowing arrangement.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 12 June 2012. The Shares will be traded in board lots of 10,000 Shares.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on the GEM and the compliance 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 as determined by HKSCC. 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 the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

**Deloitte.**  
德勤

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6 June 2012

The Directors  
China U-Ton Holdings Limited  
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding China U-Ton Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31 December 2010 and 2011 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 6 June 2012 (the “Prospectus”) in connection with the listing of the shares of the Company on Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The Company was incorporated in the Cayman Islands on 7 March 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a corporate reorganisation, as described more fully in the section headed “History, development and reorganisation” in the Prospectus (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 11 May 2011.

As at the date of this report, the Company has direct and indirect interests in the following entities comprising the Group:

Name of entity	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interests attributable to the Group		At the date of this report	Principal activities
			At 31 December 2010	2011		
Partnerfield Investments Limited (“Partnerfield”)	British Virgin Islands 7 July 2005	USD35,625	100%	100%	100%	Investment holding

Name of entity	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interests attributable to the Group		At the date of this report	Principal activities
			At 31 December 2010	2011		
河北德爾城市網路科技有限公司 (“Hebei Deer”)	The People’s Republic of China (“PRC”) 20 October 2003	RMB33,231,790	90%	100%	100%	Research and development of the technology for optical fiber cable for installation in duct
河北昌通通信工程有限公司 (“Hebei Changtong”)	The PRC 22 June 2001	RMB10,000,000	90%	100%	100%	Deployment of underground optical fibers
北京優通泰達電氣新技術發展有限公司 (formerly北京優通泰達管網集成科技有限公司) (“Beijing U-Ton”)	The PRC 22 January 2007	RMB10,000,000	90%	100%	100%	Deployment of underground optical fibers
石家莊求實通信設備有限公司 (“Shijiazhuang Qiushi”)	The PRC 25 March 1999	RMB10,180,000	—	100%	100%	Installation of low- voltage equipment and accessories

Except Partnerfield which is directly held by the Company, the rest of the above entities are indirectly held by the Company.

All subsidiaries have adopted 31 December as their financial year end date.

The statutory financial statements of Hebei Deer for each of two years ended 31 December 2011 prepared in accordance with the relevant regulations and the accounting principles generally accepted in the PRC (“PRC GAAP”) were audited by 河北華永會計師事務所有限公司, a firm of certified public accountants registered in the PRC.

There are no statutory audit requirements for Partnerfield, Hebei Changtong, Beijing U-Ton, Shijiazhuang Qiushi and the Company.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Company and its subsidiaries for the Relevant Periods, in accordance with International Financial Reporting Standards (the “Underlying Financial Statements”). The Underlying Financial Statements have been audited by Deloitte Touche Tohmatsu CPA Ltd., certified public accountants registered in the PRC, in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board (“IAASB”).

We have examined the Underlying Financial Statements and performed additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 1 of Section A below. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the Directors who approved their issue. The Directors are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company at 31 December 2011 and of the Group at 31 December 2010 and 2011 and of the consolidated results and cash flows of the Group for the Relevant Periods.



## A. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Notes</i>	<b>Year ended</b>	
		<b>31 December</b>	
		<b>2010</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	51,547	161,734
Cost of sales/services		<u>(28,215)</u>	<u>(86,692)</u>
Gross profit		23,332	75,042
Other income	7	39	134
Other gains and losses	8	(13,747)	10,879
Marketing and distribution expenses		(1,067)	(3,245)
Administrative expenses		(5,237)	(10,771)
Listing expenses		—	(9,068)
Finance costs	9	<u>(201)</u>	<u>(1,942)</u>
Profit before taxation	10	3,119	61,029
Income tax expense	11	<u>(1,542)</u>	<u>(4,191)</u>
Profit and total comprehensive income for the year		<u>1,577</u>	<u>56,838</u>
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Equity holders of the Company		(1,272)	55,381
Non-controlling interests		<u>2,849</u>	<u>1,457</u>
		<u>1,577</u>	<u>56,838</u>
		<i>RMB</i>	<i>RMB</i>
<i>(Loss) earnings per share</i>			
Basic (cents)	14	<u>(0.1)</u>	<u>4.5</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	<b>At 31 December</b>	
		<b>2010</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	15	4,868	6,451
Goodwill	16	—	30,099
Intangible assets	17	3	11
Deferred tax assets	26	2,159	2,092
Deposits paid for acquisition of property, plant and equipment		662	71
		<u>7,692</u>	<u>38,724</u>
<b>Current assets</b>			
Inventories	18	7,249	2,846
Trade and bill receivables	19	15,053	66,316
Other receivables, deposits and prepayments	20	6,969	2,682
Amounts due from customers for contract work	21	16,856	63,480
Amounts due from related parties	30(b)	861	—
Restricted bank deposits	22	601	5,327
Bank balances and cash	22	47,222	43,800
		<u>94,811</u>	<u>184,451</u>
<b>Current liabilities</b>			
Trade and other payables	23	23,997	61,269
Amounts due to related parties	30(c)	16,616	39,084
Bank and other borrowings	24	24,679	5,888
Provision	25	25	60
Income tax payables		1,093	2,508
		<u>66,410</u>	<u>108,809</u>
<b>Net current assets</b>		<u>28,401</u>	<u>75,642</u>
<b>Total assets less current liabilities</b>		<u>36,093</u>	<u>114,366</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	26	831	2,197
<b>Net assets</b>		<u>35,262</u>	<u>112,169</u>
<b>Capital and reserves</b>			
Issued equity	27	20,000	—
Reserves		14,018	112,169
Equity attributable to equity holders of the Company		34,018	112,169
Non-controlling interests		1,244	—
<b>Total equity</b>		<u>35,262</u>	<u>112,169</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Issued equity RMB'000 (Note 27)	Capital reserves RMB'000	Statutory surplus reserve RMB'000 (Note (g))	Accumulated profits RMB'000			
<b>For the two years ended</b>							
<b>31 December 2011</b>							
Balance at 1 January 2010	17,786	2,325	1,788	14,126	36,025	6,212	42,237
(Loss) profit and total comprehensive (expense) income for the year	—	—	—	(1,272)	(1,272)	2,849	1,577
Capital contribution by equity participants (Note (a))	—	204	—	—	204	—	204
Non-controlling interest arising from reverse acquisition (Note (a))	—	—	—	—	—	1,244	1,244
Acquisition of additional interest in Hebei Changtong (Note (b))	2,214	6,847	—	—	9,061	(9,061)	—
Distribution to equity participants (Note (c))	—	(10,000)	—	—	(10,000)	—	(10,000)
Appropriations	—	—	1,281	(1,281)	—	—	—
Balance at 31 December 2010	20,000	(624)	3,069	11,573	34,018	1,244	35,262
Profit and total comprehensive income for the year	—	—	—	55,381	55,381	1,457	56,838
Acquisition of Hebei Changtong (Note (d))	(10,000)	6,909	—	—	(3,091)	3,091	—
Acquisition of Shijiazhuang Qiushi (Note 33)	—	28,684	—	—	28,684	3,183	31,867
Distribution to equity participants (Note (d))	—	(10,000)	—	—	(10,000)	—	(10,000)
Arising from share swap for equity interest in Partnerfield (Note (e))	(10,000)	10,000	—	—	—	—	—
Acquisition of additional interest in Hebei Deer (Note (f))	—	7,177	—	—	7,177	(8,975)	(1,798)
Appropriations	—	—	6,278	(6,278)	—	—	—
Balance at 31 December 2011	—	42,146	9,347	60,676	112,169	—	112,169

*Notes:*

- (a) On 28 December 2010, Partnerfield issued and allotted 17,932 shares to Mr. Jiang Changqing (“Mr. Jiang”), a director and controlling shareholder of the Company, for a cash consideration of RMB119,000. Mr. Jiang also acquired other shareholding from Partnerfield’s existing shareholders on the same day by a cash consideration of RMB85,000. Upon completion, the equity interest of Partnerfield was owned as to 95% by Mr. Jiang. The total amount of RMB 204,000 was credited to capital reserves.

Upon the completion of reverse acquisition, as set out in Note 1 to Section A of this report, the non-controlling interest in Hebei Deer and Beijing U-Ton is 10% and 10% respectively. The total non-controlling interests of RMB1,244,000 represent the share of Beijing U-Ton’s and Hebei Deer’s identifiable net assets and liabilities by non-controlling shareholders.

- (b) In December 2010, Mr. Jiang acquired 22.15% of equity interest in Hebei Changtong from non-controlling interests for a cash consideration of RMB2,214,000. The difference of RMB6,847,000 between the consideration and the carrying amount of the non-controlling interests of RMB9,061,000 is credited to the capital reserves.
- (c) On 28 December 2010, Hebei Deer acquired the entire equity interest of Beijing U-Ton from Mr. Jiang and his spouse, Ms. Guo Aru (“Ms. Guo”), for a cash consideration of RMB10,000,000 which was settled during the year ended 31 December 2011. This cash consideration was considered as a distribution to equity participants and debited to the capital reserves.
- (d) On 28 January 2011, Hebei Deer acquired the entire equity interest of Hebei Changtong from Mr. Jiang for a cash consideration of RMB10,000,000. This cash consideration was considered as a distribution to the equity participant and debited to the capital reserves. Upon completion of the transfer of the equity interest of Hebei Changtong to Hebei Deer, there was a 10% non-controlling interest, amounting to RMB3,091,000, in Hebei Changtong at consolidation level.
- (e) On 11 May 2011, Mr. Jiang transferred the 80% equity interest in Partnerfield held by him to the Company in exchange for 720 shares of the Company issued as consideration. Mr. Li Qingli (“Mr. Li”) and Plansmart Investment Limited (“Plansmart”) transferred the 15.79% and 4.21% equity interest in Partnerfield held by each of them to the Company, respectively in exchange for 180 shares of the Company issued as consideration in aggregate. Upon completion, the Company continued to be indirectly owned as to 80% and 20% by Mr. Jiang and Mr. Li, respectively.
- (f) Pursuant to an equity transfer agreement dated 28 April 2011 entered into between Partnerfield and 河北瑞輝新型節能玻璃製品有限公司 Hebei Ruihui New Energy-saving Glass Products Co., Ltd (“Hebei Ruihui”), which is the non-controlling shareholder of Hebei Deer, Partnerfield acquired 10% equity interest in Hebei Deer from Hebei Ruihui at a consideration of RMB1,798,000 which was included in amount due to related parties as at 31 December 2011. On 25 May 2011, upon the completion of such equity transfer, Hebei Deer became the wholly-owned subsidiary of the Company. The difference of RMB7,177,000 between the consideration and the carrying amount of the non-controlling interest of RMB8,975,000 is credited to the capital reserves.
- (g) In accordance with the Articles of Association of subsidiaries established in the PRC now comprising the Group, these entities are required to transfer 10% of the profit after taxation determined in accordance with the PRC GAAP to the statutory surplus reserve until the reserve reaches 50% of the registered capital of respective entities. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory surplus reserve can be used to make up for previous year’s losses, expand the existing operations or convert into additional capital of these entities.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Notes</i>	Year ended 31 December	
		2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Operating activities</b>			
Profit before taxation		3,119	61,029
Adjustments for:			
Provision of warranty costs		13	35
Provision of employee injury		—	450
Recovery of other receivables		—	(2,735)
Depreciation of property, plant and equipment		624	1,005
Amortisation of intangible assets		—	1,534
Write-off of property, plant and equipment		1	—
Gain on disposal of property, plant and equipment		—	(6)
Net loss on sale of scrap material		8	—
Restructuring costs	33(a)	13,738	—
Gain on discharge of obligations under convertible loans	24	—	(6,352)
Fair value adjustment on initial recognition of other borrowings		—	(1,282)
Impairment loss on trade receivables		—	207
Gain on discharge of long outstanding payables		—	(486)
Interest income		(39)	(134)
Finance costs		201	1,942
Operating cash flows before movements in working capital		17,665	55,207
Movements in working capital:			
(Increase) decrease in inventories		(898)	6,672
Increase in trade and bill receivables		(9,296)	(46,238)
Decrease in other receivables, deposits and prepayment		5,640	4,773
Decrease (increase) in amounts due from customers for contract work		13,730	(46,624)
(Decrease) increase in trade and other payables		(6,963)	36,089
Decrease in amounts due to related parties		(23)	—
Cash generated from operations		19,855	9,879
Income tax paid		(529)	(1,784)
<b>Net cash generated from operating activities</b>		<u>19,326</u>	<u>8,095</u>

		Year ended 31 December	
	<i>Note</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Investing activities</b>			
Interest received		39	134
Payment for property, plant and equipment		(1,563)	(1,902)
Payment of intangible assets		—	(14)
Deposits paid for acquisition of property, plant and equipment		(662)	(71)
Proceeds from disposal of property, plant and equipment		—	73
Net cash inflow on acquisition of subsidiaries	33	139	984
Advances to related parties		(9,899)	(3,927)
Repayments from related parties		12,368	9,993
Placement of restricted bank deposits		(601)	(5,327)
Withdrawal of restricted bank deposits		—	601
<b>Net cash (used in) generated from investing activities</b>		<u>(179)</u>	<u>544</u>
<b>Financing activities</b>			
Interest paid		(201)	(660)
Capital injection by equity participants		119	37
Proceeds from new bank loans and other borrowings raised		20,221	35,433
Repayments of bank loans and other borrowings		(13,695)	(47,872)
Repayments to related parties		(2,351)	(10,932)
Advances from related parties		4,598	31,933
Distribution to equity participants		—	(20,000)
<b>Net cash generated from (used in) financing activities</b>		<u>8,691</u>	<u>(12,061)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		27,838	(3,422)
<b>Cash and cash equivalents at the beginning of the year</b>		<u>19,384</u>	<u>47,222</u>
<b>Cash and cash equivalents at the end of the year, represented by bank balances and cash</b>		<u><u>47,222</u></u>	<u><u>43,800</u></u>

**Notes to the financial information****1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The Financial Information is presented in Renminbi (“RMB”), which is the functional currency of the companies now comprising the Group.

In preparation for the listing of the Company’s shares on the GEM of the Hong Kong Stock Exchange (the “Listing”), the Group has undertaken following reorganisation and restructuring (the “Group Reorganisation”).

**(1) Acquisition of Beijing U-Ton (the “First Acquisition”)**

- (a) On 28 December 2010, Mr. Jiang (i) subscribed and Partnerfield issued and allotted 17,932 shares for a cash consideration of RMB119,000; and (ii) acquired additional shares from Partnerfield’s other shareholders for a cash consideration of RMB85,000 in aggregate. Upon completion, the equity interest of Partnerfield was owned as to 95% by Mr. Jiang and 5% by independent third parties.
- (b) On the same date, pursuant to an equity transfer agreement signed on 28 December 2010, Hebei Deer (Hebei Deer together with Partnerfield, collectively referred to as the “Former Partnerfield Group”), which is a 90% -owned subsidiary of Partnerfield, acquired the entire equity interest of Beijing U-Ton from Mr. Jiang and his spouse, Ms. Guo, for a cash consideration of RMB10,000,000.

Upon completion of the above transactions, Partnerfield obtained an indirect 90% equity interest of Beijing U-Ton and Mr. Jiang became the controlling shareholder of Partnerfield. The First Acquisition is accounted for as a reverse acquisition by reference to the principles under IFRS 3 Business Combinations. For accounting purpose, Beijing U-Ton is the accounting acquirer and the Former Partnerfield Group is deemed to have been acquired by Beijing U-Ton.

Details of the assets and liabilities of the Former Partnerfield Group are set out in Note 33(a).

**(2) Acquisition of Hebei Changtong (the “Second Acquisition”)**

On 28 January 2011, Hebei Deer acquired the entire equity interest of Hebei Changtong from Mr. Jiang for a cash consideration of RMB10,000,000. As the Group and Hebei Changtong are both under the common control of Mr. Jiang and his spouse, Ms. Guo, both before and after the Second Acquisition, the principles of merger accounting have been applied to account for the Second Acquisition.

**(3) Acquisition of Shijiazhuang Qiushi (the “Third Acquisition”)**

On 1 March 2011, the Group acquired 100% equity interest in Shijiazhuang Qiushi from Mr. Li, who is a director of the Company, and his spouse for a combined consideration of cash and issuance of Partnerfield’s shares. The Third Acquisition was accounted for as a business combination using the acquisition method. Details are set out in Note 33(b).

Upon completion of the Third Acquisition, Partnerfield was owned as to 80% by Mr. Jiang, 15.79% by Mr. Li and 4.21% by Plansmart. Mr. Li is the sole owner of Plansmart.

#### (4) Incorporation of the Company

On 7 March 2011, the Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$100,000 divided into 1 million shares with a par value of HK\$0.10 each. On the same day, one share with par value was allotted and issued as fully paid at par to the first subscriber. On 31 March 2011, the first subscriber transferred the issued one share to Ordillia Group and the Company issued at par 19 shares to Ordillia Group Limited (“Ordillia”) (ultimately controlled by Mr. Li) and 80 shares to Bright Warm Limited (“Bright Warm”) (ultimately controlled by Mr. Jiang), respectively. Upon completion, the Company was owned as to 80% and 20% by Bright Warm and Ordillia, respectively.

On 11 May 2011, Mr. Jiang transferred the 80% equity interest in Partnerfield held by him to the Company in exchange for 720 shares of the Company issued as consideration. Mr. Li and Plansmart transferred the 15.79% and 4.21% equity interest in Partnerfield held by each of them to the Company, respectively in exchange for 180 shares of the Company issued as consideration in aggregate. Upon completion, the Company continued to be indirectly owned as to 80% and 20% by Mr. Jiang and Mr. Li, respectively.

The Company’s statement of financial position as at 31 December 2011 is disclosed as below:

	<b>At 31 December 2011</b>
	<i>RMB'000</i>
<i>Non-current assets</i>	
Investment in unlisted shares in a subsidiary, at cost	47,004
<i>Current assets</i>	
Amount due from a subsidiary	932
Amount due from shareholders	—
	<u>932</u>
<i>Current liabilities</i>	
Other borrowing	932
Net current assets	—
Net assets	<u>47,004</u>
<i>Capital and reserves</i>	
Share capital (Note 27)	—
Capital reserves	47,004
	<u>47,004</u>



The Financial Information is prepared as a continuation of Beijing U-Ton and Hebei Changtong. Beijing U-Ton is deemed as the acquirer of the Former Partnerfield Group as a result of the First Acquisition. In addition, the Second Acquisition is accounted for as a business combination involving entities under common control as Hebei Changtong is controlled by Mr. Jiang both before and after the Second Acquisition.

The consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statement of changes in equity of the Group for the financial year ended 31 December 2010 and 2011 include the results, cash flows and changes in equity of Beijing U-Ton and Hebei Changtong throughout the Relevant Periods and also include the financial information of the Former Partnerfield Group and Shijiazhuang Qiushi from the respective acquisition dates.

The consolidated statement of financial position as at 31 December 2010 has been prepared to present the assets and liabilities of Beijing U-Ton, Hebei Changtong and Former Partnerfield Group that were in existence at that date.

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The International Accounting Standards Board (the "IASB") has issued a number of new and revised International Accounting Standards ("IAS(s)"), International Financial Reporting Standards ("IFRS(s)"), amendments and related Interpretations ("IFRIC(s)") (hereinafter collectively referred to as the "new IFRS(s)") which are effective for the Group's financial year beginning on 1 January 2011. For the purpose of preparing and presenting the financial information of the Relevant Periods, the Group has consistently adopted all these new IFRSs for the Relevant Periods.

The Group has not early applied the following new and revised standards, interpretation and amendments that have been issued but not yet effective.

IFRSs (Amendments)	Annual Improvements to IFRSs 2009-2011 Cycle <sup>2</sup>
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter <sup>1</sup>
IFRS 1 (Amendments)	Government Loans <sup>2</sup>
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets <sup>1</sup>
IFRS 7 (Amendments)	Disclosures - Offsetting of Financial Assets and Financial Liabilities <sup>2</sup>
IFRS 9	Financial Instruments <sup>5</sup>
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>5</sup>
IFRS 10	Consolidated Financial Statements <sup>2</sup>
IFRS 11	Joint Arrangements <sup>2</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
IFRS 13	Fair Value Measurement <sup>2</sup>
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
IAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
IAS 27 (Revised 2011)	Separate Financial Statements <sup>2</sup>
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>6</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2011
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2013
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2012
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 2012
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2015
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2014

The Directors anticipate that the application of the new and revised standards, amendments or interpretation will have no material impact on the results or the financial position of the Group.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared on the historical cost basis and in accordance with accounting policies set out below which are in conformity with International Financial Reporting Standards. Historical cost is generally based on the fair value of the consideration given in exchange for goods. These policies have been consistently applied throughout the Relevant Periods.

The Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

#### **Investment in a subsidiary**

Investment in a subsidiary is included in the Company's statement of financial position at cost less any impairment losses. The cost of investment in a subsidiary is measured at the carrying amount of the Company's share of equity items shown in Partnerfield's financial statements at the date of the reorganisation.

#### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year, are included in the consolidated statement of comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income and expense of a subsidiary is attributed to the equity holders of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

**Changes in the Group's ownership interest in existing subsidiaries**

Changes in the Group's interest in a subsidiary that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity (in "capital reserves") and attributed to the equity holders of the Company.

**Merger accounting for business combination involving entities under common control**

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### **Construction contracts**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade and other receivables.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Contingent rents recognised as income in the year in which they are earned.

***The Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

***Leasehold land and building***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the

contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority to the same group entity and the Group intends to settle its current tax assets and liabilities on a net basis.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

**Intangible assets*****Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

***Research and development expenditure***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

**Impairment losses on tangible and intangible assets other than goodwill**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an



impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated cost necessary to make the sale.

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### *Warranty*

Provisions for warranty costs are recognised at the date of completion of construction contracts and at the Directors' best estimate of the expenditure required to settle the Group's obligation.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

*Financial assets*

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, amounts due from related parties, restricted bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised by applying the effective interest method.

*Impairment of loans and receivables*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered not recoverable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### ***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by the group entities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group entities after deducting all of its liabilities.

#### ***Financial liabilities at amortised cost***

Financial liabilities (including trade and other payables, amounts due to related parties, bank and other borrowings) are subsequently measured at amortised cost using effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### ***Equity instruments***

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

#### ***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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 twelve months.

##### *Impairment, useful lives and residual values of property, plant and equipment*

The Directors assesses whether there are any indicators of impairment for an asset at the end of each reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. The Directors based on physical damage and technical obsolescence to assess whether the indicators of impairment for an asset exist.

Useful lives and residual values are reviewed by the Directors at the end of each reporting period. In determining the useful life and residual value of an item of property, plant and equipment, the Directors consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Adjustments to depreciation is made in the period which the revised estimate takes place if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation.

At 31 December 2010 and 2011, the property, plant and equipment of the Group amounted to RMB 4,868,000 and RMB6,451,000. Any change in the Directors' assessment on impairment, useful lives and residual values of property, plant and equipment will affect the depreciation and the impairment loss to be charged in the profit or loss on a prospective basis.

##### *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2011, the carrying amount of goodwill is RMB30,099,000. Details of the recoverable amount calculation are disclosed in Note 16.

***Impairment on doubtful receivables***

In determining whether there is objective evidence of impairment on doubtful receivables, the Group takes into consideration of the aged analysis of trade receivables and the estimation of future cash flows recoverable from these receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the impairment on doubtful receivables 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) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise.

As at 31 December 2010 and 2011, the carrying amount of trade receivables is RMB15,053,000 and RMB62,320,000, which are after impairment on doubtful receivables of RMB Nil and RMB207,000 respectively (see Note 19).

***Allowance on inventories***

The Directors review the inventories on a product-by-product basis at the end of each reporting period to identify obsolete and slow-moving inventory items that are no longer suitable for use in production. The Directors also estimates the net realisable value for finished goods and raw materials based primarily on current market conditions and the historical experience of manufacturing and selling products of similar nature and make allowance if the net realisable value is lower than the cost. These estimates could change significantly as a result of changes in customer preferences in response to the industry cycles. Where the actual net realisable values are less than expected, an allowance may arise.

As at 31 December 2010 and 2011, the carrying amount of the Group's inventories is RMB7,249,000 and RMB2,846,000, respectively. No allowance on inventories was recognised during the Relevant Periods.

***Provision for warranty***

The Group typically provides warranties for one year, after the completion of construction projects, to the customers. Provision for warranty costs are recognised at the date of completion of the relevant projects and at the Directors' best estimate of the expenditure required to settle the Group's obligation.

In making the provision, the Directors consider the actual product failure rates for similar projects, material usage and service delivery costs incurred in servicing these warranty claims, as well as recent trends that suggest that past cost information may differ from future claims. In this regard, Directors are satisfied that adequate provision for warranty had been made in light of the historical statistics of the Group. Where the actual claims are more than expected, an additional provision for warranty may arise.

As at 31 December 2010 and 2011, the carrying amount of the provision for warranty is RMB25,000 and RMB60,000, respectively.

### *Construction contracts*

Revenue and profit recognition on construction contracts are recognised by reference to the stage of completion of the contract activity at the end of each reporting period, which is measured as total contract costs incurred for work performed to date relative to estimated total contract costs to be incurred upon completion of the construction contract.

In estimating the total contract costs, management considers the actual costs incurred for similar completed contracts as well as market prices of raw materials, subcontract labor costs and other related costs that will affect the estimation of budget cost, based on past experience and current market information.

As market conditions keep changing, actual costs incurred upon completion of the project may differ significantly from that initially estimated, which would affect the amounts due from customers for contract work, contract revenue and profit recognised in the period which such changes take place.

As at 31 December 2010 and 2011, the carrying amount of the amounts due from customers for contract work is RMB16,856,000 and RMB63,480,000 respectively.

## 5. REVENUE

An analysis of the Group's revenue for the Relevant Periods is as follows:

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	971	14,410
Construction contract revenue	45,752	141,341
Services income	4,568	5,918
Rental income	<u>256</u>	<u>65</u>
	<u>51,547</u>	<u>161,734</u>

The above rental income was generated from certain using right of sewer sub-rent to telecommunication operators in the PRC. In accordance with those sub-rent agreements, the rental income was recognised based on the actual distance of sewer used by the telecommunication operators.

## 6. SEGMENT INFORMATION

During the Relevant Periods, Mr. Jiang is the controlling party and the chief operating decision maker of the Group. He reviewed the sales of major products for the purpose of resources allocation and performance assessment. Accordingly, the Group does not have any identifiable segment or any discrete information for segment reporting purpose.

**Revenue from major products and services**

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Deployment services of optical fibers		
- sales of goods	971	2,599
- provision of services	45,752	112,638
Low-voltage equipment integration services		
- sales of goods	—	11,811
- provision of services	—	28,703
Pipeline maintenance service	4,568	5,918
Rental income	<u>256</u>	<u>65</u>
	<u>51,547</u>	<u>161,734</u>

**Geographical disclosures**

The Group operates in the PRC. All of the non-current assets of the Group are located in the PRC.

The Group's revenue from external customers by geographical location are detailed below:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC	51,318	161,720
Overseas	<u>229</u>	<u>14</u>
	<u>51,547</u>	<u>161,734</u>

**Information about major customers**

Revenue from the customer of the corresponding year contributed over 10% of the total revenue of the Group is as follows:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	<u>38,907</u>	<u>106,811</u>

## 7. OTHER INCOME

	Year ended 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	<u>39</u>	<u>134</u>

## 8. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Other gains (losses) comprise:		
Impairment loss on trade receivables	—	(207)
Provision of employee injury	—	(450)
Net foreign exchange gain	—	675
Restructuring costs ( <i>Note 33(a)</i> )	(13,738)	—
Net loss on sale of scrap material	(8)	—
Gain on disposal of property, plant and equipment	—	6
Write-off of property, plant and equipment	(1)	—
Gain on discharge of long outstanding payables	—	486
Recovery of other receivables ( <i>Note</i> )	—	2,735
Fair value adjustment on initial recognition of other borrowings ( <i>Note 24</i> )	—	1,282
Gain on discharge of obligations under convertible loans ( <i>Note 24</i> )	<u>—</u>	<u>6,352</u>
	<u>(13,747)</u>	<u>10,879</u>

*Note:* This amount mainly represents the subsequent collection of other receivables by Hebei Deer which were fully written-off before the First Acquisition.



## 9. FINANCE COSTS

	Year ended 31 December	
	2010	2011
	RMB'000	RMB'000
Imputed interest expenses on other borrowings ( <i>Note 24</i> )	—	1,282
Interest on other borrowings	—	252
Interest on bank borrowings wholly repayable within five years	<u>201</u>	<u>408</u>
	<u>201</u>	<u>1,942</u>

## 10. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2010	2011
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	624	1,005
Amortisation of intangible assets ( <i>Note (a)</i> )	—	1,534
Operating lease rentals in respect of offices	554	1,446
Cost of inventories recognised as expense	6,977	32,821
Research expenses	3	1,051
Provision of warranty costs	13	35
Staff costs:		
Directors' emoluments ( <i>Note 12</i> )	145	416
Other staff costs	<u>5,374</u>	<u>10,903</u>
Total staff costs ( <i>Note (b)</i> )	<u>5,519</u>	<u>11,319</u>

*Notes:*

(a) The amortisation of intangible assets was further analysed as follows:

	Year ended 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Amortisation included in:		
Cost of sales/services	—	1,528
Administrative expenses	—	6
	<u>—</u>	<u>6</u>
	<u>—</u>	<u>1,534</u>

- (b) The total staff costs include retirement benefit cost of RMB413,000 and RMB1,015,000, respectively for the years ended 31 December 2010 and 31 December 2011.

## 11. INCOME TAX EXPENSE

	Year ended 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
PRC enterprise income tax	1,181	3,129
Underprovision in prior year	—	2
	<u>1,181</u>	<u>3,131</u>
Deferred tax:		
Current year	9	(306)
Withholding tax	352	1,366
	<u>361</u>	<u>1,060</u>
	<u>1,542</u>	<u>4,191</u>

Other than set out below, the PRC enterprise income tax for the Group's subsidiaries established in the PRC is 25%:

- (a) Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 18 December 2008 and 14 September 2011, Beijing U-Ton had been designated as a High and New Technology Enterprise and its PRC enterprise income tax rate is 15%. Moreover, Beijing U-Ton was entitled to a two-year tax exemption effected from 1 January 2008 pursuant to the Corporate Income Tax Exemption Registration Certificate (企業所得稅減免稅備案登記書) issued on 31 May 2009 by State Administration of Taxation of Hiadian District, Beijing, the PRC.

- (b) Pursuant to a certificate issued by the local tax authority, in accordance with the Measures on Authorised Methods of EIT Collection (Trial) (企業所得徵收辦法(試行)), Hebei Changtong's taxable income was computed based on 8% of its total revenue and the income tax rate was 25% for the two years ended 31 December 2010 and 2011.
- (c) Pursuant to the PRC enterprise income tax assessment form issued by the local tax authority, in accordance with the Measures on Authorised Methods of EIT Collection (Trial) (企業所得徵收辦法(試行)), Shijiazhuang Qiushi's taxable income was computed based on 7% of its total revenue and the income tax rate was 25% effective from 1 January 2011 to 31 December 2011.

The PRC enterprise income tax computation bases of Hebei Changtong and Shijiazhuang Qiushi as set out in (b) and (c) above are subject to the approval of relevant PRC tax authorities on a year-by-year basis.

The tax charge for the year can be reconciled to the profit before taxation per consolidated statements of comprehensive income as follows:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	<u>3,119</u>	<u>61,029</u>
PRC enterprise income tax at applicable tax rate of 25%	780	15,257
Tax effect on:		
Expenses not deductible for tax purposes	3,477	3,092
Income not subject to tax	—	(2,842)
Concessionary rates granted to a PRC subsidiary	(352)	(56)
Taxable income estimated on total revenue	(2,715)	(12,628)
Underprovision in prior year	—	2
Withholding tax on undistributed profit of PRC entities	<u>352</u>	<u>1,366</u>
Tax charge for the year	<u>1,542</u>	<u>4,191</u>

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## Directors

The emoluments paid or payable to each of the Directors by the group companies during the Relevant Periods were as follows:

Name of director	Directors' fees	Basic salaries and allowances	Discretionary performance bonus	Retirement benefit contribution	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Note)</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Year ended 31 December 2010</b>					
Mr. Jiang	—	79	—	12	91
Ms. Guo	—	48	—	6	54
Mr. Li	—	—	—	—	—
	—	127	—	18	145
<b>Year ended 31 December 2011</b>					
Mr. Jiang	—	202	18	17	237
Ms. Guo	—	139	—	9	148
Mr. Li	—	24	—	7	31
	—	365	18	33	416

*Note:* The discretionary performance bonus is determined by reference to the performance of the director.

During the Relevant Periods, part of the retirement benefit contribution of Mr. Jiang and his spouse was paid by their respective ex-employer in Hebei province, the PRC.

During the Relevant Periods, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

No Directors waived any emoluments during the Relevant Periods.

**Employee**

The five highest paid individuals of the Group in each of the reporting period included two Directors. The emoluments of the remaining three highest paid individuals for Relevant Periods are as follows:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Salary	45	371
Discretionary performance bonus	113	149
Retirement benefit contributions	<u>21</u>	<u>21</u>
	<u>179</u>	<u>541</u>

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the remaining highest paid individuals are within the following band:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

**13. DIVIDENDS**

No dividends have been paid or declared by the companies now comprising the Group during the Relevant Periods.

No special dividend was paid or declared subsequent to 31 December 2011.

**14. (LOSS) EARNINGS PER SHARE**

The calculation of the basic (loss) earnings per share attributable to equity holders of the Company is based on the following data:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>(Loss) earnings</b>		
(Loss) profit for the year attributable to equity holders of the Company	<u>(1,272)</u>	<u>55,381</u>
	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>'000</i>	<i>'000</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>1,009,535</u>	<u>1,227,836</u>

For the Relevant Periods, the calculations of basic (loss) earnings per share are based on 1,260,000,000 shares in issue on the assumption that the Group Reorganisation and the capitalisation issue as disclosed in the section of "History, development and reorganisation — Reorganisation" and "Statutory and general information" in the Prospectus respectively had been completed on 1 January 2009.

No information of diluted (loss) earnings per share is presented as there was no potential ordinary shares outstanding during the Relevant Periods.

## 15. PROPERTY, PLANT AND EQUIPMENT

	<b>Leasehold land and building</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Machinery</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>COST</b>					
At 1 January 2010	700	648	1,890	1,644	4,882
Additions	—	797	657	234	1,688
Acquisition of a subsidiary (Note 33)	—	—	717	—	717
Write-off	—	—	—	(8)	(8)
At 31 December 2010	700	1,445	3,264	1,870	7,279
Additions	—	844	1,434	286	2,564
Acquisition of a subsidiary (Note 33)	—	23	19	49	91
Disposals	—	(55)	(22)	—	(77)
At 31 December 2011	700	2,257	4,695	2,205	9,857
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2010	157	255	382	1,000	1,794
Charge for the year	23	192	202	207	624
Eliminated on write-off	—	—	—	(7)	(7)
At 31 December 2010	180	447	584	1,200	2,411
Charge for the year	22	261	454	268	1,005
Eliminated on disposal	—	(8)	(2)	—	(10)
At 31 December 2011	202	700	1,036	1,468	3,406
<b>CARRYING AMOUNT</b>					
At 31 December 2010	<u>520</u>	<u>998</u>	<u>2,680</u>	<u>670</u>	<u>4,868</u>
At 31 December 2011	<u>498</u>	<u>1,557</u>	<u>3,659</u>	<u>737</u>	<u>6,451</u>

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

Leasehold land and building	3.23%
Motor vehicles	19.40%
Machinery	9.70%
Office equipment	19.40%

The leasehold land and building is located in Hengshui City Hebei Province, the PRC. The lease payment of the land element cannot be allocated reliably from the building and the leasehold land and building is accounted for as property, plant and equipment in its entirety. The land use right has a term of 50 years and will be expired on 1 May 2052.

## 16. GOODWILL

	Year ended 31 December	
	2010	2011
	RMB'000	RMB'000
<i>Cost and carrying amounts</i>		
Balance at beginning of year	—	—
Addition recognised from business combination occurred during the year (Note 33(b))	—	30,099
Balance at end of year	—	30,099

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill has been allocated to the following cash generating unit (CGU).

	At 31 December	
	2010	2011
	RMB'000	RMB'000
Low-voltage equipment integration services located in Shijiazhuang, the PRC	—	30,099

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling price and direct costs. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.



For the purpose of impairment testing, the Group prepares cash flow projection covering a 5-year period. The calculation uses cashflow projections based on financial budgets approved by management covering a 5-year period and discount rate of 19%. The cash flows beyond the 5-year period are extrapolated using an estimated growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the CGU.

## 17. INTANGIBLE ASSETS

The movements of the Group's intangible assets for the Relevant Periods are set out as follows:

	<b>Backlog contracts</b>	<b>Software licenses</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>COST</b>			
At 1 January 2010	—	—	—
Acquisition of a subsidiary ( <i>Note 33(a)</i> )	—	3	3
At 31 December 2010	—	3	3
Addition	—	14	14
Acquisition of a subsidiary ( <i>Note 33(b)</i> )	1,528	—	1,528
At 31 December 2011	1,528	17	1,545
<b>ACCUMULATED AMORTISATION</b>			
At 1 January 2010 and 31 December 2010	—	—	—
Charge for the year	1,528	6	1,534
At 31 December 2011	1,528	6	1,534
<b>CARRYING VALUE</b>			
At 31 December 2010	—	3	3
At 31 December 2011	—	11	11

The software licenses have finite useful lives and are amortised on a straight-line basis over 5 years.

All backlog contracts were completed during the year ended 31 December 2011.

## 18. INVENTORIES

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	3,542	1,056
Finished goods	<u>3,707</u>	<u>1,790</u>
	<u>7,249</u>	<u>2,846</u>

## 19. TRADE AND BILL RECEIVABLES

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	15,053	62,527
Less: Allowance for impairment of receivables	<u>—</u>	<u>(207)</u>
	15,053	62,320
Bill receivable	<u>—</u>	<u>3,996</u>
	<u>15,053</u>	<u>66,316</u>

The collection period of the majority of the trade receivables ranges from 30 to 180 days from the invoice date during the Relevant Periods. No interest is charged on the outstanding balance. There is no credit term granted to customers.

The following is an aged analysis of trade and bill receivables by invoice/completion certificate date at the end of the reporting period:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	9,802	58,699
91 to 180 days	2,102	2,051
181 to 365 days	1,167	3,138
1 to 2 years	1,385	2,186
2 to 3 years	65	242
Over 3 years	<u>532</u>	<u>—</u>
Total trade and bill receivables	<u>15,053</u>	<u>66,316</u>

The above analysis also represented the aged analysis of trade receivables amounts which are past due at the end of the reporting period.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables at the end of each reporting period.

In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of reporting period and assesses portfolio of receivable on a collective basis to ensure that adequate impairment losses are made for irrecoverable amounts. The Directors believe that no further provision is required in excess of the provision for impairment of receivables.

Movements of allowance for impairment of receivables are set out as follow:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of year	—	—
Additions recognised during the year	—	207
	<u>—</u>	<u>207</u>
Balance at end of year	—	207
	<u>—</u>	<u>207</u>

At 31 December 2010 and 2011, retentions held by customers for contract works included in trade receivables amounted to RMB685,000 and RMB2,338,000 respectively.

## 20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables — non-trade	5,053	50
Staff loans	1,011	—
Advances to suppliers	367	1,215
Deposits	208	1,086
Other	330	331
	<u>6,969</u>	<u>2,682</u>

The non-trade other receivables represent the amounts advance to independent third parties for their short term financing purpose.

At the end of each reporting period, the non-trade other receivables and the staff loans are unsecured, interest-free and expected to be recovered within 12 months from the end of respective reporting period.

**21. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK**

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Contracts in progress at the end of the reporting period</i>		
Contract costs incurred plus recognised profit or loss	16,856	63,480
Less: progress billings	<u>—</u>	<u>—</u>
	<u>16,856</u>	<u>63,480</u>
Analysed for reporting purpose as:		
Amounts due from contract customers	<u>16,856</u>	<u>63,480</u>

**22. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH**

At 31 December 2010 and 2011, the restricted bank deposits mainly included RMB601,000 and RMB5,052,000 respectively, which were used to secure the Group's bill facilities. The restricted bank deposits will be released upon the settlement of relevant bill facilities.

Bank balances and cash comprise cash and short-term deposits held by the Group with an original maturity of three months or less.

Restricted bank deposits and bank balances carry prevailing market interest rate of 0.36% and 0.50% per annum as at 31 December 2010 and 2011, respectively.

At the end of each reporting period, included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities to which they relate.

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances and cash denominated in:		
USD	103	96
HKD	165	632
EUR	<u>234</u>	<u>322</u>
	<u>502</u>	<u>1,050</u>

## 23. TRADE AND OTHER PAYABLES

	At 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	14,665	37,257
Bill payables	601	5,052
Advance from customers	1,604	—
Other payables	2,786	8,949
Other tax payables	965	4,216
Accrued payroll	<u>3,376</u>	<u>5,795</u>
	<u>23,997</u>	<u>61,269</u>

The Group has financial risk management policies in place to ensure that payables are within the credit timeframe.

The following is an aged analysis of trade and bill payables by date of invoices received at the end of the reporting period:

	At 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	11,435	25,791
91 to 180 days	13	5,561
181 to 365 days	341	10,402
1 to 2 years	2,839	483
2 to 3 years	638	47
Over 3 years	<u>—</u>	<u>25</u>
	<u>15,266</u>	<u>42,309</u>

## 24. BANK AND OTHER BORROWINGS

	At 31 December	
	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings	9,997	4,956
Other borrowings	<u>14,682</u>	<u>932</u>
	<u>24,679</u>	<u>5,888</u>

All bank borrowings are carried at floating rate, secured by a charge over certain of the Group's trade receivables with carrying amounts of RMB6,166,000 and RMB6,195,000 at 31 December 2010 and 2011 respectively and repayable within one year from the end of each reporting period. The effective interest rates on the borrowings are as follows:

	At 31 December	
	2010	2011
	%	%
Floating-rate borrowings ( <i>Note</i> )	<u>5.84</u>	<u>7.26</u>

*Note:* The floating rate is at 110% or 115% of the People's Bank of China's benchmark interest rate for loans.

All bank borrowings are denominated in the functional currencies of the relevant group entities.

Included in other borrowings at 31 December 2010 were amounts payable by Partnerfield for settlement of convertible loans matured in the year ended 31 December 2008 and are analysed as follows:

	At 31 December	
	2010	2011
	RMB'000	RMB'000
Interest-bearing at 5% per annum computed on daily basis	10,122	—
Non-interest bearing	<u>4,560</u>	<u>—</u>
	<u>14,682</u>	<u>—</u>

In June 2011, Partnerfield has entered into agreements with the lenders to settle the entire outstanding balances of HK\$15,044,000 (approximately RMB12,522,000). Pursuant to the agreements, the Group agreed to pay HK\$7,420,000 (approximately RMB6,170,000) to the lenders to discharge all obligations of Partnerfield under the convertible loans resulted in a gain of HK\$7,624,000 (approximately RMB6,352,000).

During the year ended 31 December 2011, the Group received advances from independent third parties, with principal amounts of RMB20,320,000 in aggregate. These balances were unsecured, interest-free and were repayable one year from the date of drawdown. Fair value adjustment at an effective interest rate of 6.31% amounting to RMB1,282,000 was credited as income. The movements of these borrowings are further analysed as follows:

	<b>Year ended 31 December 2011</b>
	<i>RMB'000</i>
Other borrowing — principal	20,320
Less: Fair value adjustment ( <i>Note 7</i> )	(1,282)
Add: imputed interest ( <i>Note 9</i> )	1,282
Less: Repayment	<u>(20,320)</u>
	<u>—</u>

As at 31 December 2011, the other borrowings represented the advances received from an independent third party which carried a fixed interest of 10% per annum. This borrowing is secured by personal guarantee of Mr. Jiang and is repayable one year from the date of drawdown. The other borrowings are denominated in Hong Kong Dollar. As at the date of this report, the personal guarantee provided by Mr. Jiang was released.

## 25. PROVISION

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of year	12	25
Amounts recognised during the year	<u>13</u>	<u>35</u>
Balance at end of year	<u>25</u>	<u>60</u>

Provision for warranty costs are recognised at the date of completion of the relevant construction projects and at the Directors' best estimate of the expenditure required to settle the Group's obligation.

At the end of each reporting period, the Directors consider the possibility of the future outflow of economic benefits that will be required under the Group's obligations for warranties.

## 26. DEFERRED TAXATION

The following are the deferred tax assets and liabilities recognised and movements thereon during the Relevant Periods:

	Intangible assets <i>RMB'000</i>	Trade receivables <i>RMB'000</i>	Undistributed retained profits <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2010	—	—	(479)	—	144	(335)
Acquisition of a subsidiary ( <i>Note 33</i> )	—	—	—	2,024	—	2,024
Charge to profit or loss	—	—	(352)	—	(9)	(361)
At 31 December 2010	—	—	(831)	2,024	135	1,328
Acquisition of a subsidiary ( <i>Note 33</i> )	(382)	9	—	—	—	(373)
Credit (charge) to profit or loss	382	46	(1,366)	(67)	(55)	(1,060)
At 31 December 2011	—	55	(2,197)	1,957	80	(105)
				<b>At 31 December</b>		
				<b>2010</b>	<b>2011</b>	
				<i>RMB'000</i>	<i>RMB'000</i>	

Presented in the Financial Information as:

Deferred tax assets	2,159	2,092
Deferred tax liabilities	(831)	(2,197)
	<u>1,328</u>	<u>(105)</u>

Deferred taxation in respect of the temporary differences attributable to the undistributed accumulated profits earned after 1 January 2008 by PRC subsidiaries has been provided for based on a certain percentage of undistributed profit of these subsidiaries generated from 1 January 2008 onwards in accordance with the Group's dividend policy.

No deferred tax liability has been recognised in respect of undistributed accumulated profits of PRC subsidiaries of RMB25,033,000 and RMB65,940,000 as at 31 December 2010 and 2011, respectively, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.



**27. ISSUED EQUITY**

The issued equity as at 1 January 2010 and 31 December 2010 represented the paid-in capital of Beijing U-Ton and Hebei Changtong which were attributable to the equity holders of the Company. The issued equity as at 31 December 2011 represents the share capital of the Company set out as follows:

	<b>Number of shares</b>	<b>Share capital</b> <i>RMB'000</i>
<b>Authorised</b>		
1 million ordinary shares of HK\$0.10 each on incorporation and at 31 December 2011	1,000,000	100
<b>Issued and fully paid</b>		
On incorporation	1	—
Issue of shares to initial shareholders	99	—
Issue of shares for the Group Reorganisation	900	—
At 31 December 2011	1,000	—

**28. RETIREMENT BENEFIT PLANS**

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The group entities in the PRC contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The Group also participates in a defined contribution scheme, Mandatory Provident Fund Scheme (the "MPF Scheme"), established under the Hong Kong Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group, in funds under the control of independent trustees.

The retirement benefit cost charged to the consolidated statements of comprehensive income represents contributions payable to the funds by the Group at rate specified in the rules of the schemes. For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The maximum monthly amount of contribution is limited to HK\$1,000 per employee.

**29. OPERATING LEASE COMMITMENT****The Group as a lessee**

At the end of the reporting period, the Group had future minimum lease payments under non-cancelable operating leases in respect of leased properties are as follows:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	137	1,265
In the second to fifth year inclusive	<u>163</u>	<u>1,027</u>
	<u>300</u>	<u>2,292</u>

Operating lease payments represent rentals payable by the Group for office premises. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements.

The operating lease payments disclosed above do not include amounts which are related to the using right of sewer. The Group has entered into several agreements for exclusive sewer using rights with local governments in certain target cities. In accordance with those lease agreements, the rentals were charged based on the actual distance of sewer used by the Group.

**The Group as a lessor**

The Group has entered into certain agreements to sub-rent the sewer using rights to telecommunication operators in the target cities. In accordance with those sub-rent agreements, the rental income was recognised based on the actual distance of sewer used by the telecommunication operators.

## 30. RELATED PARTY BALANCES AND TRANSACTIONS

- (a) For the Relevant Periods, the following parties are identified as related party to the Group and the respective relationships are set out below:

Name of related party	Relationship
Hebei Deer	Significantly influenced by Mr. Li before restructuring
河北德源管業製造有限公司 ("Hebei Deyuan")	Controlled by Mr. Jiang
河北乾源通信設備有限公司 ("Hebei Qianyuan")	Controlled by Mr. Jiang and Ms. Guo
河北永昌電力工程有限公司 ("Hebei Yongchang")	Controlled by ex-Shareholder of Hebei Changtong
衡水乾源房地產開發有限公司 ("Hengshui Qianyuan")	Controlled by Ms. Jiang Ling
石家莊市裕華區艾美美居家具銷售中心 ("Shijiazhuang Yuhua")	Controlled by Ms. Ren Yanping
河北瑞輝新型節能玻璃製品有限公司 ("Hebei Ruihui")	Controlled by Mr. Du Yanhua*
河北鑫華羊絨有限公司 ("Hebei Xinhua")	Controlled by Mr. Du Yanhua*
Mr. Jiang	Shareholder and director of the Company
Ms. Jiang Ling	Sister of Mr. Jiang
Ms. Guo	The spouse of Mr. Jiang
Mr. Li	Shareholder and director of the Company
Ms. Ren Yanping	The spouse of Mr. Li
Boom World Investments Limited ("Boom World")	Controlled by Mr. Du Yanhua*
Plansmart	Controlled by Mr. Li
Believe Power Investments Limited ("Believe Power")	Controlled by Mr. Jiang and Mr. Li
Ordillia	Controlled by Mr. Li
Bright Warm	Controlled by Mr. Jiang

\* Mr. Du Yanhua is a member of Group's key management personnel.

- (b) At the end of each reporting period, the Group has amounts receivable from the following related parties and the details are set out below:

Name of related party	At 1 January	At 31 December	
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Non-trade nature			
Hebei Deyuan	1,384	278	—
Hengshui Qianyuan	1,217	—	—
Hebei Yongchang	100	—	—
Hebei Deer	2,546	—	—
Hebei Qianyuan	—	52	—
Believe Power	—	148	—
Boom World	—	12	—
Plansmart	—	12	—
Ordillia	—	27	—
Mr. Jiang	—	119	—
Ms. Jiang Ling	98	—	—
Mr. Li	—	213	—
	<u>5,345</u>	<u>861</u>	<u>—</u>

The non-trade amounts were unsecured, interest-free and were settled during the year ended 31 December 2011.

The following information is disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance:

	<b>Maximum amount outstanding</b>	
	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Hebei Deyuan	9,184	278
Hengshui Qianyuan	1,217	—
Hebei Yongchang	320	—
Hebei Deer	2,546	—
Hebei Qianyuan	1,400	1,366
Believe Power	148	148
Boom World	12	12
Plansmart	12	12
Ordillia	27	27
Mr. Jiang	119	3,121
Ms. Jiang Ling	627	600
Mr. Li	213	2,721
Bright Warm	—	8
Shijiazhuang Yuhua	—	3,885
	<u>          </u>	<u>          </u>

- (c) At the end of each reporting period, the Group has amounts payable to the following related parties and the details are set out below:

<b>Name of related party</b>	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Non-trade nature		
Hebei Deyuan	393	—
Hebei Ruihui	—	1,800
Ms. Guo	7,614	4,130
Mr. Jiang	7,497	16,347
Ms. Jiang Ling	30	—
Mr. Li	1,082	8,115
Ms. Ren Yanping	—	2,603
Ordillia	—	5,889
Hebei Xinhua	—	200
	<u>          </u>	<u>          </u>
	<u>16,616</u>	<u>39,084</u>

The amounts are unsecured, interest-free and repayable on demand.

The Directors represented that all non-trade payables to related parties will be fully settled or waived before the Listing.

- (d) During the Relevant Periods, the Group entered into the following transactions with its related parties:

Name of related party	Nature of transaction	Year ended 31 December	
		2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Ms. Guo	Rental expense	29	30
Hebei Qianyuan	Rental expense	—	360
Hebei Deyuan	Purchase	243	—
Hebei Deyuan	Rental expense	—	35

In the opinion of the Directors' of the Company, the above related party transactions were conducted on normal commercial terms and will be discontinued after the Listing.

- (e) The remuneration paid and payable to the key management of the Company who are also the Directors for the Relevant Periods is set out in Note 12.

### 31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 24, net of bank balances and cash and equity attributable to equity holders of the Company, comprising issued equity, reserves and accumulated profits.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to balance its overall capital structure.

**32. FINANCIAL INSTRUMENTS****a. Categories of financial instruments**

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets</b>		
Loans and receivables (including bank balances and cash)	<u>70,015</u>	<u>116,635</u>
<b>Financial liabilities</b>		
Liabilities measured at amortised cost	<u>64,327</u>	<u>102,025</u>

**b. Financial risk management objectives and policies**

The Group's major financial instruments include trade and bill receivables, other receivables, amounts due from related parties, restricted bank deposits, bank balances and cash, trade and other payables, amount due to related parties, and bank and other borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

The Group's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates risks (see below).

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over the Relevant Periods.

***Interest rate risk management***

The Group's fair value interest rate risk relates primarily to other borrowings, which are interest free, from independent third parties (see note 24 for details of these borrowings). For cashflow interest rate risk, interest bearing financial instruments are mainly bank deposits and secured bank borrowings which are all short term in nature and carry market interest rates. Therefore, the Group is not exposed to significant interest risk due to short maturity of financial assets and liabilities. Accordingly, no sensitivity analysis is presented. The Group currently does not have an interest rate hedging policy and will consider hedging the risk exposures should the need arise.

*Foreign currency risk management*

The Group has bank balances and cash, other receivables, other payables and other borrowings which are denominated in foreign currencies and consequently it has foreign exchange risk exposure resulting from translation of amount denominated in foreign currencies. The Group does not hedge its exposure in this respect but monitor these closely.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	<b>At 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets		
USD	103	96
HKD	703	668
EUR	<u>234</u>	<u>322</u>
Financial liabilities		
HKD	<u>14,682</u>	<u>11,079</u>

*Foreign currency sensitivity*

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year where Renminbi strengthens 5% against foreign currencies. For a 5% weakening of Renminbi against foreign currencies, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
USD	(5)	(5)
HKD	699	521
EUR	<u>(12)</u>	<u>(16)</u>



***Credit risk management***

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted procedures in monitoring its credit risk.

The Group's current credit practices include assessment and evaluation of customer's credit reliability and periodic review of their financial status to determine credit limit to be granted. The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those financial assets as stated in the consolidated statements of financial position.

The Group is exposed to high concentration of credit risk as the Group relies on the major telecommunication operators in PRC. At 31 December 2010 and 2011, the largest debtors accounted for approximately 59% and 60%, respectively of the Group's total trade and bill receivables respectively. The Group has explored new markets and new customers and launched new products in order to minimise the concentration of credit risk.

The credit risk on liquid funds is limited because the banks are with good reputation.

***Liquidity risk management***

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings. The Directors closely monitor the liquidity position and expect to have adequate sources of funding to finance the Group's projects and operations.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

	<b>Weighted average interest rate</b>	<b>Repayable on demand or less than 1 year</b>	<b>1 to 5 years</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amount</b>
	%	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	—	23,032	—	23,032	23,032
Amounts due to related parties	—	16,616	—	16,616	16,616
Bank borrowings — variable rate	5.84%	10,289	—	10,289	9,997
Other borrowings — interest-bearing ( <i>Note</i> )	5.13%	10,122	—	10,122	10,122
Other borrowings — interest-free ( <i>Note</i> )	—	<u>4,560</u>	<u>—</u>	<u>4,560</u>	<u>4,560</u>
At 31 December 2010		<u>64,619</u>	<u>—</u>	<u>64,619</u>	<u>64,327</u>
Trade and other payables	—	57,053	—	57,053	57,053
Amounts due to related parties	—	39,084	—	39,084	39,084
Bank borrowings — variable rate	7.26%	5,136	—	5,136	4,956
Other borrowings — fixed rate	10.00%	<u>1,025</u>	<u>—</u>	<u>1,025</u>	<u>932</u>
At 31 December 2011		<u>102,298</u>	<u>—</u>	<u>102,298</u>	<u>102,025</u>

*Note:* Included in other borrowings at 31 December 2010 are amounts payable by Partnerfield for settlement of convertible loans matured in year ended 31 December 2008, which were overdue and repayable on demand at 31 December 2010.

c. **Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their respective fair values at the end of each reporting period.

**33. ACQUISITION OF SUBSIDIARIES****(a) The First Acquisition**

As set out in note 1, the acquisition of Beijing U-Ton was accounted for as a reverse acquisition. Assets acquired and liabilities recognised of the Former Partnerfield Group on 28 December 2010, the date of acquisition are set out below.

	<b>Fair Value</b> <i>RMB'000</i>
<i>Non-current assets</i>	
Property, plant and equipment	717
Intangible assets	3
Deferred tax assets	2,024
<i>Current assets</i>	
Other receivables	4,766
Amounts due from related parties	531
Bank balances and cash	258
<i>Current liabilities</i>	
Trade and other payables	(1,886)
Amounts due to related parties	(4,021)
Other borrowings	<u>(14,682)</u>
	(12,290)
Non-controlling interest (10% of Hebei Deer)	<u>545</u>
Net liabilities acquired	<u><u>(11,745)</u></u>

*Represented by:*

	<i>RMB'000</i>
Subscription of Partnerfield's shares	119
Consideration paid to the existing shareholders of Partnerfield	<u>85</u>
Consideration transferred	204
Dilution of equity interest in Beijing U-Ton (10% in Beijing U-Ton)	1,789
Restructuring costs recognised as expense	<u>(13,738)</u>
	<u><u>(11,745)</u></u>

The restructuring costs arose in the acquisition of the Former Partnerfield Group was recognised as an expense during the year ended 31 December 2010.

Net cash inflow on acquisition of Beijing U-Ton

	<i>RMB'000</i>
Subscription of Partnerfield's shares	(119)
Cash and cash equivalent acquired	<u>258</u>
	<u><u>139</u></u>

**(b) The Third Acquisition**

On 1 March 2011, the Group acquired 100% equity interest in Shijiazhuang Qiushi for a combined consideration of cash and Partnerfield's shares. Before the acquisition took place, Shijiazhuang Qiushi was wholly owned by Mr. Li, who subsequently became one of the Directors, and his spouse.

The major purpose of the acquisition is to broaden the Group's revenue stream and to extend its business to cover indoor services. The acquisition will also diversify the Group's product varieties and increase the market share of the Group.

Shijiazhuang Qiushi is principally engaged in the business of providing telecommunication equipments to telecommunication operators and installation service for low-voltage equipments and accessories.

*Consideration transferred*

	<i>RMB'000</i>
Consideration payable (Note 1)	9,669
Fair value of Partnerfield's shares (Note 2)	31,867
Less: Cash received for subscription for Partnerfield's shares	<u>(37)</u>
 Total	 <u><u>41,499</u></u>

*Notes:*

- (1) In accordance with the equity transfer agreement, the cash consideration of RMB9,669,000 will be paid within three months from the acquisition date and such amount is included in amount due to Mr. Li and his spouse as at 31 December 2011. Up to the date of this report, this amount was fully settled.
- (2) On 1 March 2011, Partnerfield issued and allotted 5,626 shares (equivalent to 15.79% of Partnerfield's total equity interest) to Mr. Li as part of the consideration. On the date of acquisition, the fair value of Partnerfield's total equity interest is RMB201,823,000.

The fair value of Partnerfield's equity has been arrived on the basis of discounted cash flow method carried out on the date of acquisition by American Appraisal China Limited, an independent firm of valuers, who have an appropriate recognised professional qualification. The calculation uses cashflow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 17%. The cash flows beyond the 5-year period are extrapolated using an estimated growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

There was no acquisition-related cost incurred for the above transaction.

*Assets acquired and liabilities recognised at the date of acquisition*

	<b>Fair Value</b> <i>RMB'000</i>
<i>Non-current assets</i>	
Property, plant and equipment	91
Intangible assets	1,528
<i>Current assets</i>	
Inventories	2,269
Trade receivables	2,497
Other receivables, deposits and prepayments	486
Amounts due from related parties	5,205
Bank balances and cash	984
<i>Current liabilities</i>	
Trade and other payables	(1,219)
Income tax payables	(68)
<i>Non-current liabilities</i>	
Deferred tax liabilities	(373)
	<u>11,400</u>

The trade and other receivables and amounts due from related parties acquired in this transaction with a fair value of RMB8,188,000 had gross contractual amounts to receive of RMB8,222,000. The best estimate at acquisition date of the cash flows not expected to be collected is RMB34,000.

*Goodwill arising on acquisition*

	<i>RMB'000</i>
Consideration transferred	41,499
Less: net assets acquired	<u>(11,400)</u>
Goodwill arising on acquisition	<u>30,099</u>

Goodwill arising from the acquisition of Shijiazhuang Qiushi mainly represents the benefit of expected synergies, revenue growth and future market development in indoor services. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

*Net cash inflow on acquisition of Shijiazhuang Qiushi*

	<i>RMB'000</i>
Cash consideration paid	—
Cash and cash equivalent acquired	<u>984</u>
	<u>984</u>

*Impact of acquisitions on the results of the Group*

Included in the profit for the year ended 31 December 2011 is RMB13,090,000 attributable to the additional business generated by Shijiazhuang Qiushi. Revenue for the year ended 31 December 2011 includes RMB41,370,000 in respect of Shijiazhuang Qiushi.

Had the acquisition been completed on 1 January 2011, total revenue of the Group for the period would have been RMB162,111,000, and profit for the period would have been RMB56,912,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

## 34. PRE-ACQUISITION FINANCIAL INFORMATION OF SHIJIAZHUANG QIUSHI

The financial information on Shijiazhuang Qiushi during the year ended 31 December 2010 and two months ended 28 February 2011 (the “Pre-acquisition Periods”) is disclosed as below.

## (i) STATEMENTS OF COMPREHENSIVE INCOME

		<b>Year ended 31 December 2010</b>	<b>Two months ended 28 February 2011</b>
	Notes	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	(a)	13,448	377
Cost of sales		<u>(8,781)</u>	<u>(195)</u>
Gross profit		4,667	182
Other income	(b)	1	—
Other gains and losses	(c)	541	—
Distribution expenses		(537)	(143)
Administrative expenses		<u>(853)</u>	<u>(102)</u>
Profit/(loss) before taxation	(d)	3,819	(63)
Income tax (expense) credit	(e)	<u>(255)</u>	<u>2</u>
Profit/(loss) and total comprehensive income for the year/period		<u><u>3,564</u></u>	<u><u>(61)</u></u>



## (ii) STATEMENTS OF FINANCIAL POSITION

		<b>At 31</b>	<b>At 28</b>
		<b>December</b>	<b>February</b>
		<b>2010</b>	<b>2011</b>
	Notes	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	(f)	97	91
Deferred tax assets		<u>—</u>	<u>9</u>
		<u>97</u>	<u>100</u>
<b>Current assets</b>			
Inventories	(g)	2,198	2,269
Trade receivables	(h)	7,104	2,497
Other receivables, deposits and prepayments	(i)	1,360	486
Amounts due from related parties	(j)	1,799	5,205
Bank balances and cash		<u>1,452</u>	<u>984</u>
		<u>13,913</u>	<u>11,441</u>
<b>Current liabilities</b>			
Trade and other payables	(k)	3,475	1,219
Income tax payable		<u>220</u>	<u>68</u>
		<u>3,695</u>	<u>1,287</u>
<b>Net current assets</b>		<u>10,218</u>	<u>10,154</u>
<b>Total assets less current liabilities</b>		<u>10,315</u>	<u>10,254</u>
<b>Net assets</b>		<u>10,315</u>	<u>10,254</u>
<b>Capital and reserves</b>			
Paid-in capital		10,180	10,180
Reserves		<u>135</u>	<u>74</u>
<b>Total equity</b>		<u>10,315</u>	<u>10,254</u>

## (iii) STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital <i>RMB'000</i>	Capital Reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2010	10,180	109	(3,538)	6,751
Profit and total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>3,564</u>	<u>3,564</u>
Balance at 31 December 2010	10,180	109	26	10,315
Loss and total comprehensive expense for the period	<u>—</u>	<u>—</u>	<u>(61)</u>	<u>(61)</u>
Balance at 28 February 2011	<u>10,180</u>	<u>109</u>	<u>(35)</u>	<u>10,254</u>

## (iv) STATEMENTS OF CASH FLOWS

	Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
<b>Operating activities</b>		
Profit/(loss) before taxation	3,819	(63)
Adjustments for:		
Depreciation of property, plant and equipment	353	6
Gain on disposal of property, plant and equipment	(541)	—
Amortisation of intangible assets	1	—
Interest income	<u>(1)</u>	<u>—</u>
Operating cash flows before movements in working capital	3,631	(57)
Movements in working capital:		
Increase in inventories	(760)	(71)
(Increase) decrease in trade receivables	(6,301)	4,606
(Increase) decrease in other receivables, deposits and prepayments	701	(126)
Decrease in amount due from a related party	4	—
Increase (decrease) in trade and other payables	<u>2,961</u>	<u>(2,257)</u>
Cash generated from operations	236	2,095
Income tax paid	<u>(18)</u>	<u>(158)</u>
<b>Net cash generated from operating activities</b>	<u>218</u>	<u>1,937</u>

	Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
<b>Investing activities</b>		
Interest received	1	—
Proceeds from disposal of property, plant and equipment	1,365	—
Payment for property, plant and equipment	(37)	—
Advance to related parties	(1,708)	(3,490)
Repayment from related parties	<u>2,887</u>	<u>85</u>
<b>Net cash generated from (used in) investing activities</b>	<u>2,508</u>	<u>(3,405)</u>
<b>Financing activities</b>		
Repayment to related parties	(595)	—
Repayment to independent third parties	(1,180)	—
Advance from independent third parties	—	1,000
Advances from related parties	<u>180</u>	<u>—</u>
<b>Net cash (used in) generated from financing activities</b>	<u>(1,595)</u>	<u>1,000</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	1,131	(468)
<b>Cash and cash equivalents at the beginning of the year/period</b>	<u>321</u>	<u>1,452</u>
<b>Cash and cash equivalents at the end of the year/period, represented by bank balances and cash</b>	<u><u>1,452</u></u>	<u><u>984</u></u>

**(v) EXPLANATORY NOTES:****(a) Revenue**

Revenue represents the amount received and receivable for goods delivered/services rendered by Shijiazhuang Qiushi. An analysis of the revenue of Shijiazhuang Qiushi for the Pre-acquisition Periods is as follows:

	Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
Sales of goods	13,357	363
Maintenance service	<u>91</u>	<u>14</u>

Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
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<u>13,448</u>	<u>377</u>
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**(b) Other income**

Other income represents the interest income earned on the bank balances.

**(c) Other gains and loss**

Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
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<u>541</u>	<u>—</u>
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**(d) Profit before taxation**

Profit before taxation has been arrived at after charging:

Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
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Depreciation of property, plant and equipment	353	6
Amortisation of intangible assets included in administrative expenses	<u>1</u>	<u>—</u>

Staff costs, including directors' emoluments :

- Salaries and other benefit costs	881	154
- Retirement benefit costs	<u>255</u>	<u>56</u>

Total staff costs	<u>1,136</u>	<u>210</u>
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## (e) Income tax expense (credit)

	Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
Current tax:		
PRC enterprise income tax	<u>255</u>	<u>7</u>
Deferred tax:		
Current year/period	<u>—</u>	<u>(9)</u>
	<u>255</u>	<u>(2)</u>

Before 1 January 2011, the PRC enterprise income tax for Shijiazhuang Qiushi was 25%. Pursuant to an approval document issued by the local tax authority, Shijiazhuang Qiushi's taxable income was computed based on 7% of its total revenue and the income tax rate was 25% effected from 1 January 2011.

The tax expense (credit) for the Pre-acquisition Periods can be reconciled to the profit before tax per the statements of comprehensive income as follows:

	Year ended 31 December 2010 <i>RMB'000</i>	Two months ended 28 February 2011 <i>RMB'000</i>
Profit/(loss) before taxation	<u>3,819</u>	<u>(63)</u>
PRC enterprise income tax at applicable tax rate of 25%	955	(16)
Tax effect on:		
Expenses not deductible for tax purposes	2	—
Deferred tax assets not recognised in prior periods	(702)	(9)
Taxable income estimated on total revenue	<u>—</u>	<u>23</u>
Tax charge (credit) for the year/period	<u>255</u>	<u>(2)</u>

## (f) Property, plant and equipment

	<b>Motor Vehicles</b>	<b>Machinery</b>	<b>Office Equipment</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost				
At 1 January 2010	577	2,116	316	3,009
Addition	—	3	34	37
Disposal	<u>—</u>	<u>(2,091)</u>	<u>(149)</u>	<u>(2,240)</u>
At 31 December 2010 and 28 February 2011	<u>577</u>	<u>28</u>	<u>201</u>	<u>806</u>
Accumulated depreciation				
At 1 January 2010	554	997	221	1,772
Charge for the year	—	306	47	353
Eliminated on disposal	<u>—</u>	<u>(1,294)</u>	<u>(122)</u>	<u>(1,416)</u>
At 31 December 2010	554	9	146	709
Charge for the period	<u>—</u>	<u>—</u>	<u>6</u>	<u>6</u>
At 28 February 2011	<u>554</u>	<u>9</u>	<u>152</u>	<u>715</u>
Carrying Amount				
At 31 December 2010	<u>23</u>	<u>19</u>	<u>55</u>	<u>97</u>
At 28 February 2011	<u>23</u>	<u>19</u>	<u>49</u>	<u>91</u>

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

Motor vehicles	19.0%
Machinery	9.5%
Office equipment	19.0%

**(g) Inventories**

The inventories of Shijiazhuang Qiushi consist of low-voltage equipment and accessories, including video conference system, projectors, liquid crystal display monitors, servers, and other communication equipments.

	<b>At 31 December 2010 RMB'000</b>	<b>At 28 February 2011 RMB'000</b>
Finished goods	<u>2,198</u>	<u>2,269</u>

**(h) Trade receivables**

According to the historical debt collection pattern, the collection period of the majority of the trade receivables ranges from 30 to 180 days during the Pre-acquisition Periods. No interest is charged on the outstanding balance. There is no fixed credit term granted to customers.

The following is an aged analysis of trade receivables by invoice date at the end of the reporting period:

	<b>Year ended 31 December 2010 RMB'000</b>	<b>Two months ended 28 February 2011 RMB'000</b>
Within 90 days	6,972	1,344
91 to 180 days	72	1,013
181 to 365 days	40	95
1 to 2 years	18	43
2 to 3 years	—	—
Over 3 years	<u>2</u>	<u>2</u>
	<u>7,104</u>	<u>2,497</u>

**(i) Other receivables, deposits and prepayments**

	<b>At 31 December 2010 RMB'000</b>	<b>At 28 February 2011 RMB'000</b>
Other receivables — non-trade	1,050	50

	<b>At 31 December 2010 <i>RMB'000</i></b>	<b>At 28 February 2011 <i>RMB'000</i></b>
Advances to suppliers	75	171
Advances to employee	125	155
Deposits	<u>110</u>	<u>110</u>
	<u>1,360</u>	<u>486</u>
 (j) <b>Amounts due from related parties</b>		
	<b>At 31 December 2010 <i>RMB'000</i></b>	<b>At 28 February 2011 <i>RMB'000</i></b>
Mr. Li	1,799	1,795
Shijiazhuang Yuhua	<u>—</u>	<u>3,410</u>
	<u>1,799</u>	<u>5,205</u>
 (k) <b>Trade and other payables</b>		
	<b>At 31 December 2010 <i>RMB'000</i></b>	<b>At 28 February 2011 <i>RMB'000</i></b>
Trade payables	2,684	341
Advances from third parties	124	279
Accrued payroll	433	461
Other payables	<u>234</u>	<u>138</u>
	<u>3,475</u>	<u>1,219</u>



The following is an aged analysis of trade payables by date of invoices at the end of the reporting period:

	<b>At 31 December 2010 RMB'000</b>	<b>At 28 February 2011 RMB'000</b>
Within 90 days	2,321	131
91 to 180 days	282	58
181 to 365 days	—	—
1 to 2 years	47	108
2 to 3 years	34	10
Over 3 year	—	34
	<u>2,684</u>	<u>341</u>

### 35. CAPITAL COMMITMENTS

	<b>At 31 December 2010 RMB'000</b>	<b>2011 RMB'000</b>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Financial Information	<u>50</u>	<u>83</u>

### 36. CONTINGENT LIABILITIES

A subsidiary has been named as a defendant in the Shijiazhuang Changan District People's Court and the Hebei Shijiazhuang Intermediate People's Court action in respect of an alleged compensation for injuries. The potential claim amount shall be subject to the actual damages, including medical and rehabilitation expenses, transportation, etc., reasonably incurred by the applicant and the maximum amount of the claim against the Group will be determined by the court.

At the Directors' best estimation by reference to a legal advice, the injury claim amount will be approximately RMB450,000, which was provided during the year ended 31 December 2011.

### B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration has been paid or is payable to the Directors by the Company or any of its subsidiaries during the Relevant Periods. Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2012 amounted to be approximately RMB1,075,000.

**C. SUBSEQUENT EVENTS**

The following events took place subsequent to 31 December 2011:

- (a) On 27 May 2012, by resolution of the shareholders of the Company, the authorised share capital of the Company was increased from HK\$100,000 to HK\$400,000,000 divided into 4,000,000,000 Shares by the creation of additional 3,999,000,000 Shares of HK\$0.1 each; and
- (b) On 27 May 2012, shareholders' written resolutions were passed to approve the matters set out in the paragraph headed "Resolutions in writing of all Shareholders passed on 27 May 2012" in Appendix IV to the Prospectus which includes, conditional upon the granting of the listing of the shares of the Company by the Listing Division of the Stock Exchange and the conditions in the Underwriting Agreements being fulfilled, 1,259,999,000 shares are to be issued and allotted to the Shareholders by way of capitalisation of the sum of HK\$125,999,900 standing to the credit of the share premium account of the Company, such shares ranking pari passu in all respect with the existing issued shares of the Company; and
- (c) On 4 June 2012, the outstanding amounts due to Mr. Jiang and Ms. Guo of approximately RMB20,000,000 were waived by such related parties which will be recognised as capital contribution from shareholders.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared subsequent to 31 December 2011.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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*The following information does not form part of the Accountants' Report on the financial information of the Group for the two years ended 31 December 2011 issued by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this Prospectus, and is included for information purposes only.*

*For illustrative purposes only, the unaudited pro forma financial information prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out herein to provide prospective investors with further financial information about how the proposed Placing might have affected the consolidated net tangible assets of the Group as if the Placing had taken place on 31 December 2011.*

*Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial position following our completion of the Placing.*

**(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company which has been prepared for the purpose of illustrating the effect on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2011 as if the Placing had been taken place on 31 December 2011. The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2011 as shown in the Accountants' Report set forth in Appendix I to this Prospectus and is adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 December 2011 or at any future dates after the completion of the Placing.

	<b>Consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2011 RMB'000</b>	<b>Add: Estimated net proceeds from the Placing RMB'000</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company RMB'000</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>	
	<i>(Note 1)</i>	<i>(Notes 2 &amp; 5)</i>	<i>(Note 3)</i>	<i>RMB</i>	<i>HK\$ Equivalent</i>
				<i>(Notes 4 &amp; 5)</i>	
Based on the Placing Price of HK\$0.34 per Placing Share	82,059	99,354	181,413	0.11	0.13

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## APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*Notes:*

1. The consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2011 have been calculated based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2011 of approximately RMB112,169,000 as set out in the Accountants' Report set forth in Appendix I to this Prospectus after deducting goodwill and intangible assets of approximately RMB30,110,000. The intangible assets mainly consist of software licences.
2. The estimated net proceeds from the Placing are based on 420,000,000 Placing Shares and the Placing Price of HK\$0.34 per Placing Share, after deducting underwriting fees and other related expenses paid/payable by the Company. Estimated net proceeds from the Placing do not take into account any Shares that the Company may issue upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme.
3. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group that were entered into subsequent to 31 December 2011.
4. We calculated the unaudited pro forma adjusted consolidated net tangible assets per Share referred to in the preceding paragraphs and on the basis of 1,680,000,000 Shares which comprise shares in issue as at 31 December 2011 and assuming that the Capitalisation Issue and the Placing had been completed on 31 December 2011. The unaudited pro forma adjusted consolidated net tangible assets per Share do not take into account any Shares that the Company may issue upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme.
5. The translation between Renminbi and Hong Kong dollars has been made at the rate of RMB0.8107 to HK\$1.00, the PBOC Rate prevailing at 31 December 2011. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollar, or vice versa, at that rate or at any other rates or at all.

**(B) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information*

**Deloitte.**  
**德勤**

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香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
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Hong Kong

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF CHINA U-TON HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of China U-Ton Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company (the “Directors”) for illustrative purposes only, to provide information about how the placing might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 6 June 2012 (the “Prospectus”). The basis of preparation of the unaudited pro forma financial information is set out in Part A of Appendix II to the Prospectus.

**Respective responsibilities of Directors and reporting accountants**

It is the responsibility solely of the Directors to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM 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 31(7) of Chapter 7 of the GEM 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 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.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2011 or any future dates.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 6 June 2012

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 March 2011 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and the Amended and Restated Articles of Association (the "**Articles**").

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 27 May 2012 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

- (a) **Shares**
  - (i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

- (ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be

dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

**(b) Directors**

*(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.



(ii) *Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or

if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended 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 other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) 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 his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or 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 his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (ee) any contract or arrangement in which the Director or his associate(s) 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/their interest in shares or debentures or other securities of the Company.

*(vi) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, 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 only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. 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.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order 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 Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) 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) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) *Register of Directors and officers*

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. 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.

(c) **Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified 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 general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) **Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel 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; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

**(f) Special resolution - majority required**

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles 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 members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

**(g) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any 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 in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) **Annual general meetings**

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.



**(i) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(j) Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the GEM Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) 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% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

**(k) Transfer of shares**

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, 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.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

**(l) Power of the Company to purchase its own shares**

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

**(m) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

**(n) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members 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 Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(o) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual

and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(p) Calls on shares and forfeiture of shares**

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(q) Inspection of corporate records**

Members of the Company 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. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

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 outside the Cayman Islands, as its directors may, from time to time, think fit.

**(r) 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, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(s) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(t) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company shall be wound up and 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, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members 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 in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of 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 and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(u) Untraceable members**

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such



advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) 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 of the Company for an amount equal to such net proceeds.

**(v) Subscription rights reserve**

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 7 March 2011 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Company operations**

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, 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 amount of its authorised share capital.

**(b) Share capital**

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or 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 or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements 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 the 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, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;

- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that 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.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

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 member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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 issued shares of the company other than shares held as treasury shares. In addition, 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.

Under section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of sections 34 and 37A(7) 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, 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 sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that 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.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (i) 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

(ii) in addition, that no tax 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:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from 23 August 2011.

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.

**(k) Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of the company 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.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the Company may determine from time to time. The Cayman Companies Law contains no requirement 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.

**(o) Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed off, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(p) Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are

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 member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) **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% 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 members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the 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 members.

(r) **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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

#### **4. GENERAL**

Appleby, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice which summarises certain aspects of the 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 available for inspection" in Appendix V. 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 is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 7 March 2011.

Our Company has been registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company with a principal place of business in Hong Kong at Rooms 2201-03, 22/F, World-Wide House, 19 Des Voeux Road, Central, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Pang Chun Kit, our company secretary, has been appointed as our authorised representative for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises the Memorandum and the Articles. A summary of certain relevant part of its constitution and certain relevant aspects of Companies Law is set out in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

- (i) As at the date of its incorporation on 7 March 2011, our Company had an authorised share capital of HK\$100,000 divided into 1,000,000 Shares of HK\$0.10 each. On the same day, one Share was allotted and issued as fully paid at par to Company Secretaries Ltd., the first subscriber.
- (ii) On 31 March 2011, the first subscriber transferred one issued Share to Ordillia, and additional 19 and 80 Shares were issued and allotted at par to Ordillia and Bright Warm, respectively. Upon completion, our Company was owned as to 80.00% and 20.00% by Bright Warm and Ordillia, respectively.
- (iii) On 11 May 2011, Mr. Jiang transferred 28,500 shares of US\$1.00 each in the share capital of Partnerfield, representing 80.00% of its issued share capital, to our Company, in consideration of which our Company allotted and issued 720 Shares, credited as fully paid, to Bright Warm at the direction of Mr. Jiang.
- (iv) On 11 May 2011, Mr. Li and Plansmart transferred 5,625 and 1,500 shares of US\$1.00 each in the share capital of Partnerfield, representing 15.79% and 4.21% of its issued share capital, respectively, to our Company, in consideration of which our Company allotted and issued 135 and 45 Shares, credited as fully paid, to Ordillia, respectively. Upon completion, our Company continued to be owned as to 80.00% and 20.00% by Bright Warm and Ordillia, respectively.
- (v) On 27 May 2012, our Shareholders resolved to increase the authorised share capital of our Company from HK\$100,000 to HK\$400,000,000 divided into 4,000,000,000 Shares by the creation of additional 3,999,000,000 Shares.



- (vi) Immediately following completion of the Placing and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option, the authorised share capital of our Company will be HK\$400,000,000 divided into 4,000,000,000 Shares, of which 1,680,000,000 Shares will be issued fully paid or credited as fully paid, and 2,320,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in the section headed “History, development and reorganisation — Reorganisation” in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

Our Company has no founder shares, management shares or deferred shares.

### 3. Resolutions in writing of all Shareholders passed on 27 May 2012

Written resolutions were passed by all Shareholders on 27 May 2012 pursuant to which, among other matters:

- (a) our Company approved and adopted the Articles of Association with effect from the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$100,000 divided into 1,000,000 Shares of HK\$0.1 each to HK\$400,000,000 divided into 4,000,000,000 Shares by the creation of additional 3,999,000,000 Shares (the “Increase”);
- (c) conditional on (aa) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Placing Price having been determined (the Placing Price was determined); (cc) the execution and delivery of the Underwriting Agreement on or before the date as mentioned in this prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
- (i) the Placing and the Over-allotment Option were approved and the Directors were authorised to allot and issue of the Placing Shares pursuant to the Placing and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;

- (ii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at the Directors' absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
- (iii) following the Increase and conditional on the share premium account of our Company being credited as a result of the Placing, the Directors were authorised to capitalise the amount of HK\$125,999,900 standing to the credit of the share premium account of our Company to pay up in full at par 1,259,999,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on 27 May 2012 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank pari passu in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation;
- (iv) a general unconditional mandate was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Placing or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to the Directors as referred to in paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association, the Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
- (v) a general unconditional mandate was given to the Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and

- (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

#### 4. Group reorganisation

Our Group underwent the Reorganisation prior to the Listing which involved the following steps:

- (a) establishment of our offshore shareholding structure; and
- (b) restructuring of our PRC operating subsidiaries.

For further details of the Reorganisation, please refer to the section headed “History, development and reorganisation — Reorganisation” in this prospectus.

#### 5. Changes in share capital and shareholdings of the subsidiaries of the Company

The subsidiaries of our Company are referred to in the accountants’ report set out in Appendix I to this prospectus.

In addition to the alterations described in the section headed “History, development and reorganisation” in this prospectus, the following alterations in the share capital of each of our Company’s subsidiaries took place within two years immediately preceding the date of this prospectus:

##### *Hebei Changtong*

On 21 December 2010, the following transfers in equity interests of Hebei Changtong were taken place:

- (a) Zhang Yuedong (張躍東) transferred 11.552% equity interests in Hebei Changtong to Mr. Jiang at a consideration of RMB1,155,200;
- (b) Sun Chengbin (孫承斌) transferred 2.543% equity interests in Hebei Changtong to Mr. Jiang at a consideration of RMB254,300;
- (c) Liu Shiwen (劉世文) transferred 7.552% equity interests in Hebei Changtong to Mr. Jiang at a consideration of RMB755,200;
- (d) Jia Jinpeng (賈金鵬) transferred 0.322% equity interests in Hebei Changtong to Mr. Jiang at a consideration of RMB32,200;
- (e) Zhou Ye (周業) transferred 0.081% equity interests in Hebei Changtong to Mr. Jiang at a consideration of RMB8,100;
- (f) Cao Jinwang (曹金旺) transferred 0.081% equity interests in Hebei Changtong to Mr. Jiang at a consideration of RMB8,100; and

- (g) Yang Hongzhi (楊洪志) transferred 0.016% equity interests in Hebei Changtong to Mr. Jiang at a consideration of RMB1,600.

Save as disclosed above and in the section headed “History, development and reorganisation” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

#### 6. Further information about our Group’s PRC establishment(s)

The Company has the following subsidiaries established in the PRC, the basic information of which as at the Latest Practicable Date are set out below:

##### *Hebei Deer*

- |        |   |   |  |
|--------|---|---|--|
| (i)    | Date of Establishment   | : | 20 October 2003  |
| (ii)   | Date of conversion into a sino-foreign equity joint venture enterprises | : | 4 November 2005  |
| (iii)  | Date of conversion into a wholly foreign-owned enterprise               | : | 25 May 2011  |
| (iv)   | Registered Office   | : | Room 20-905, East Zone, Century Garden Donggang Road, Shijiazhuang Hebei Province, China   |
| (v)    | Corporate nature  | : | limited liability company (wholly foreign-owned enterprise)  |
| (vi)   | Registered capital  | : | US\$4,110,000  |
| (vii)  | Term of operation   | : | 20 October 2003 to 3 November 2035   |
| (viii) | Legal representative  | : | Mr. Li   |
| (ix)   | Shareholder(s)  | : | Partnerfield (100%)  |
| (x)    | Scope of business   | : | integration and construction of pipeline engineering system; network engineering technology development, provision of technology development and technology consulting services in relation to network engineering (for projects which requires relevant qualification certificates, operations could only be conducted after obtaining the relevant qualification certificates) |

*Hebei Changtong*

- (i) Date of Establishment : 20 June 2000
- (ii) Registered Office : 5/F, Shennong Building, No. 45 Tangunan Street, Yuhua District, Shijiazhuang, Hebei Province, China
- (iii) Corporate nature : limited liability company
- (iv) Registered capital : RMB10,000,000
- (v) Term of operation : 22 June 2000 to 21 June 2020
- (vi) Legal representative : Mr. Jiang
- (vii) Shareholder(s) : Hebei Deer (100%)
- (viii) Scope of business : construction of lines, pipelines and facilities inside and outside buildings; design, integration, installation and testing of computer system (operations shall not be conducted if they are prohibited under PRC laws and regulations; for projects which requires approvals and permits from relevant PRC authorities, operations could only be conducted after obtaining the relevant approvals and permits)

*Shijiazhuang Qiushi*

- (i) Date of Establishment : 25 March 1999
- (ii) Registered Office : East Side, 7/F, Block A, Dashimen, No. 108 Donggang Road, Shijiazhuang, Hebei Province, China
- (iii) Corporate nature : limited liability company
- (iv) Registered capital : RMB10,180,000
- (v) Term of operation : 25 March 1999 to 23 October 2026
- (vi) Legal representative : Mr. Li
- (vii) Shareholder(s) : Hebei Deer (100%)
- (viii) Scope of business : retail and wholesale of wire telecommunication equipment and office automation facilities; development, installation, maintenance of landline telephone of China TieTong Telecommunications Corporation; design, installation and maintenance of safety engineering system (valid until 1 March 2011); laying of lines; installation and testing of cable TV; integration of computer networks, development and sales of computer software and hardware; sales, installation and maintenance of energy-saving lights; fire control; sales, installation and maintenance of fire control products; decoration; sales, installation and maintenance of audio-visual products; sales, installation and maintenance of surveillance equipment and light emitting diode (LED)

*Beijing U-Ton*

- (i) Date of Establishment : 22 January 2007
- (ii) Registered Office : No. A129, 6/F, Jinyuan Shidai Shopping Mall, No.1, Yuanda Road, Haidian District, Beijing, China
- (iii) Corporate nature : limited liability company
- (iv) Registered capital : RMB10,000,000
- (v) Term of operation : 22 January 2007 to 21 January 2037
- (vi) Legal representative : Mr. Jiang
- (vii) Shareholder(s) : Hebei Deer (100%)
- (viii) Scope of business : Technology development, technology transfer, provision of technology services; import and export of goods, import and export of technology, provision of import and export agency services; sales of electronic products; provision of computer system services; provision of professional contracting services

**7. Securities repurchase mandate**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

**(a) Shareholders' approval**

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by all Shareholders on 27 May 2012, a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorising any repurchase by our Company of our Shares on the GEM or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

(b) *Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

(c) *Reasons for repurchases*

The Directors believe that it is in the best interest of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase 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 if the Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, the 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 Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 1,680,000,000 Shares in issue immediately after the Listing, would result in up to 168,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.



(e) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

The 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 GEM Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made after the Listing. The Directors are not aware of any other consequences of the repurchases which would give rise under the Takeovers Code immediately after the Listing.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares than in issue may only be implemented with the approval of the Stock Exchange to waive the GEM Listing Rules requirements regarding the public shareholding referred to above. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the GEM Listing Rules.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person (as defined in the GEM Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

## **FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**

### **1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the capital contribution transfer agreement dated 28 December 2010 and entered into between Mr. Jiang and Hebei Deer, pursuant to which Mr. Jiang transferred his equity interests in Beijing U-Ton in respect of capital contribution for the sum of RMB5,900,000 to Hebei Deer at a consideration of RMB5,900,000;



- (b) the capital contribution transfer agreement dated 28 December 2010 and entered into between Ms. Guo and Hebei Deer, pursuant to which Ms. Guo transferred her equity interests in Beijing U-Ton in respect of capital contribution for the sum of RMB4,100,000 to Hebei Deer at a consideration of RMB4,100,000;
- (c) the equity transfer agreement dated 28 January 2011 and entered into between Mr. Jiang and Hebei Deer, pursuant to which Mr. Jiang transferred 100% equity interests in Hebei Changtong to Hebei Deer at a consideration of RMB10,000,000;
- (d) the equity transfer agreement dated 1 March 2011 and entered into between Mr. Li, and Hebei Deer, pursuant to which Mr. Li transferred 73.08% equity interests in Shijiazhuang Qiushi to Hebei Deer at a consideration of RMB7,066,000;
- (e) the equity transfer agreement dated 1 March 2011 and entered into between Ms. Ren and Hebei Deer, pursuant to which Ms. Ren transferred 26.92% equity interests in Shijiazhuang Qiushi to Hebei Deer at a consideration of RMB2,603,000;
- (f) the equity transfer agreement dated 28 April 2011 and entered into between Partnerfield and Hebei Ruihui, pursuant to which Hebei Ruihui transferred 10.00% equity interests in Hebei Deer to Partnerfield at a consideration of RMB1,800,000;
- (g) the instrument of transfer dated 11 May 2011 and entered into between our Company and Mr. Jiang, pursuant to which Mr. Jiang transferred 28,500 shares in the share capital of Partnerfield to our Company, in consideration of which our Company allotted and issued 720 Shares, credited as fully paid, to Bright Warm;
- (h) the instrument of transfer dated 11 May 2011 and entered into between our Company and Mr. Li, pursuant to which Mr. Li transferred 5,625 shares in the share capital of Partnerfield to our Company, in consideration of which our Company allotted and issued 135 Shares, credited as fully paid, to Ordillia;
- (i) the instrument of transfer dated 11 May 2011 and entered into between our Company and Plansmart, pursuant to which Plansmart transferred 1,500 shares in the share capital of Partnerfield to our Company, in consideration of which our Company allotted and issued 45 Shares, credited as fully paid, to Ordillia;
- (j) the Guofu Deed of Termination;
- (k) the Hoifu Deed of Termination;
- (l) the Bridgecity Deed of Termination;
- (m) the Golden Acropolis Deed of Termination;
- (n) the Delong Deed of Termination;
- (o) the Dragonview Deed of Termination;

- (p) the Believe Power Deed of Confirmation;
- (q) the Boom World Deed of Confirmation;
- (r) the Plansmart Deed of Confirmation;
- (s) the deed of non-competition undertaking dated 27 May 2012 and executed by Mr. Jiang, Bright Warm and Ms. Guo as covenantors in favour of the Company;
- (t) the deed of non-competition undertaking dated 27 May 2012 and executed by Mr. Li and Ordillia as covenantors in favour of the Company;
- (u) the Deed of Indemnity; and
- (v) the Underwriting Agreement.

## 2. Intellectual property rights of our Group

### (a) Trademarks

As at the Latest Practicable Date, we had applied for registration of the following material trademark:

Trademark	Class	Place of Application	Application Number	Name of Applicant	Application Date
 中国优通控股 China UT Holding	9 (Note 1)	PRC	10231086	Our Company	24 November 2011
 中国优通控股 China UT Holding	37 (Note 2)	PRC	10231115	Our Company	24 November 2011

1. The specification of goods under Class 9 are optical communication instrument; network communication equipment; personal stereos; computers; micrometers; material for electricity mains (wires, cables); light conducting filaments (optical fibers); power station automation equipment; alarms; galvanic cells; all included in Class 9.
2. The specification of services under Class 37 are construction information; construction; mining extraction; upholstering; machinery installation, maintenance and repair; electric appliance installation and repair; office machines and equipment installation, maintenance and repair; computer hardware installation, maintenance and repair; motor vehicle maintenance and repair; telephone installation and repair; all included in Class 37.

As at the Latest Practicable Date, we had registered the following material trademark(s):

Trademark	Class	Place of Registration	Registration Number	Name of Registrant	Validity Period
A 	9, 37 (Notes 1 and 2)	Hong Kong	301927891	Our Company	26 May 2011 to 25 May 2021
B 					

Notes:

1. The specification of goods under Class 9 are cables, cable installations, optical fibers, optical communication apparatus and circuitry, all for telecommunication purposes and for communication of data, information, pictures, video, images and sound; television, radio, video and audio apparatus, equipment and devices; electrical wiring installations; surveillance instruments; all included in Class 9.
2. The specification of services under Class 37 are building construction; repair; installation services; maintenance and repair of electronic installations; wiring of offices for data transmission; beneath ground construction work relating to wiring; electrical wiring services; wiring of buildings for telecommunication transmission; cable-laying; installation and maintenance of security systems; installation and maintenance of underground optical fibers; building installation services; installation of surveillance system; installation of multi-line telephone system; installation of data wiring; installation of network cabling connections; all included in Class 37.

(b) **Patents**

(i) As at the Latest Practicable Date, we had registered the following material utility patents:

Title	Place of Registration	Registration Number	Name of Registrant	Validity Period
A type of plastic pipe material used for telecommunication pipes (一種通信管道用塑料管材)	PRC	ZL200620128211.4	Hebei Changtong	22 November 2006 to 21 November 2016
A type of plastic pipe clamp used for telecommunication pipes (一種通信管道塑料管管卡)	PRC	ZL200620128210X	Hebei Changtong	22 November 2006 to 21 November 2016
A type of micro-ducts used for protecting optical fibers (一種用于微纜保護的微管接頭) <sup>(Note 1)</sup>	PRC	ZL200720149466.3	Beijing U-Ton	6 June 2007 to 5 June 2017

<b>Title</b>	<b>Place of Registration</b>	<b>Registration Number</b>	<b>Name of Registrant</b>	<b>Validity Period</b>
A type of mini-cables reserve box used for reconstruction of telecommunication pipes (一種用於通信管道改建的微纜預留盒)	PRC	ZL200720169801.6	Beijing U-Ton	20 July 2007 to 19 July 2017
A type of seven-hole plum blossom pipe for installation of mini-cables (一種用於安裝微纜的七孔梅花管)	PRC	ZL200720169802.0	(a) Beijing U-Ton (b) China Mobile Group Hebei Company Limited, Shijiazhuang Branch (中國移動通信集團河北有限公司石家莊分公司)	20 July 2007 to 19 July 2017
A type of telecommunication pipe used for installation of mini-cables (一種用於安裝微纜的通信管道)	PRC	ZL200720169803.5	(a) Beijing U-Ton (b) China Mobile Group Hebei Company Limited, Shijiazhuang Branch (中國移動通信集團河北有限公司石家莊分公司)	20 July 2007 to 19 July 2017
A type of mini-cables connector box used for reconstruction of telecommunication pipes (一種用於通信管道改建的微管接頭盒)	PRC	ZL200720173604.1	Beijing U-Ton	12 October 2007 to 11 October 2017
A type of oval ring shaped mini-cables reserve box used for reconstruction of telecommunication pipes (一種用於通信管道改建的橢圓環形微纜預留盒)	PRC	ZL200720173695.9	Beijing U-Ton	19 October 2007 to 18 October 2017
Ground embedded inflating type optical fiber distribution box (地理式充氣型光纜交接箱)	PRC	ZL200720173827.8	(a) Beijing U-Ton (b) China Mobile Group Hebei Company Limited, Hengshui Branch (中國移動通信集團河北有限公司衡水分公司)	26 October 2007 to 25 October 2017
A type of branching box used for installation of telecommunication micro-ducts (一種用於通信微管道敷設的分歧盒)	PRC	ZL200820109151.0	Beijing U-Ton	11 July 2008 to 10 July 2018

<b>Title</b>	<b>Place of Registration</b>	<b>Registration Number</b>	<b>Name of Registrant</b>	<b>Validity Period</b>
A type of telecommunication micro-ducts applied to non-excavation micro-control pipe jacking construction (一種非開挖微控頂管式施工的通信微管道)	PRC	ZL200820109152.5	Beijing U-Ton	11 July 2008 to 10 July 2018
A type of telecommunication micro-ducts applied to excavation tiling construction (一種開挖平鋪式施工的通信微管道)	PRC	ZL200820109306.0	Beijing U-Ton	18 July 2008 to 17 July 2018
A type of micro-pipe jacking machine for installation of underground pipes (一種用於地下鋪設管道的微型頂管機)	PRC	ZL200920105881.8	(a) Beijing U-Ton (b) Beijing Hailunda Science and Technology Development Company Limited (北京海倫達科技發展有限公司)	25 February 2009 to 24 February 2019
Sealed-box type optical fiber fusing device (密封箱式光纜熔纖裝置)	PRC	ZL200920270461.5	(a) Beijing U-Ton (b) China Mobile Group Hebei Company Limited (中國移動通信集團河北有限公司)	23 November 2009 to 22 November 2019
Device for installing telecommunication optical fibers in the rain and sewage pipes (雨、污水管道鋪設通信光纜裝置)	PRC	ZL200720102233.8	Hebei Deer	10 August 2007 to 9 August 2017
A type of integrated pipes for installation of mini-cables (一種用於安裝微纜的集束管)	PRC	ZL201020517064.6	Hebei Changtong	3 September 2010 to 2 September 2020
A type of waterproof connector used for protecting optical fibers (一種用於光纖保護的防水接頭) <i>(Note 1)</i>	PRC	ZL201020548996.7	Hebei Changtong	30 September 2010 to 29 September 2020

(ii) As at the Latest Practicable Date, we had registered the following invention patents:

Title	Place of Registration	Registration Number	Name of Registrant	Validity Period
A type of micro-ducts used for protecting optical fibers (一種用於微纜保護的微管接頭) <i>(Note 1)</i>	PRC	ZL200710100214.6	Beijing U-Ton	6 June 2007 to 5 June 2027
A type of micro-ducts reconstruction method on telecommunication pipes (一種對通信管道進行微管化改造的方法)	PRC	ZL200710119535.0	Beijing U-Ton	26 July 2007 to 25 July 2027
Chipboard for tightening artificial well terminal of the optical fiber and its manufacturing method (用於人井終端光纜拉緊的卡板及其製備方法)	PRC	ZL200710304800.2	Beijing U-Ton	29 December 2007 to 28 December 2027
A type of construction method which utilises city roads for installation of micro telecommunication pipes (一種利用城區道路鋪設路槽微型通信管道的施工方法)	PRC	ZL200810116496.3	(a) Beijing U-Ton (b) China Mobile Group Hebei Company Limited, Handan Branch (中國移動通信集團河北有限公司邯鄲分公司)	11 July 2008 to 10 July 2028
Ground embedded capacity optical fiber distribution box (地理式容量光纜交接箱)	PRC	ZL200810222800.2	(a) Beijing U-Ton (b) China Mobile Group Hebei Company Limited, Shijiazhuang Branch (中國移動通信集團河北有限公司石家莊分公司)	19 September 2008 to 18 September 2028
A type of valve connector used for protecting optical fibers (一種用於微纜保護的氣閥接頭) <i>(Note 2)</i>	PRC	ZL201010297300.2	Hebei Changtong	30 September 2010 to 29 September 2030

(iii) As at the Latest Practicable Date, we had registered the following material appearance design patent:

Title	Place of Registration	Registration Number	Name of Registrant	Validity Period
Micro-ducts (微管接頭) <i>(Note 1)</i>	PRC	ZL200730143884.7	Beijing U-Ton	6 June 2007 to 5 June 2017

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

(c) *Domain names*

As at the Latest Practicable Date, we had registered the following domain name:

<b>Registrant</b>	<b>Domain Name</b>	<b>Registration Date</b>	<b>Expiry Date</b>
Our Company	www.chinauton.com	23 March 2011	23 March 2014

## FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

### 1. **Directors**

(a) *Disclosure of interests of the Directors*

- (i) Each of Mr. Jiang, Mr. Li and Ms. Guo is interested in the Reorganisation and the transactions as contemplated under the material contracts as set out in the section headed “Further information about the business of our Group — Summary of material contracts” in this Appendix IV.
- (ii) Save as disclosed in this prospectus, none of the Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) *Particulars of Directors’ service contracts*

*Executive Directors*

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than three months’ notice in writing served by either party on the other. Each of the Executive Directors is entitled to their respective basic salaries set out below.



The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

<b>Name</b>	<b>Annual salary</b> (RMB)
Mr. Jiang Changqing	456,996
Mr. Li Qingli	215,313
Ms. Guo Aru	312,629

*Independent Non-executive Directors*

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of RMB30,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) ***Directors remuneration***

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to the Directors in respect of each of the two years 31 December 2011 were approximately RMB0.1 million and RMB0.4 million, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by the Directors (including the independent non-executive Directors in their respective capacity as Directors) for the year ended 31 December 2012 are expected to be approximately RMB1.1 million.
- (iii) None of the Directors or any past directors of any member of our Group has been paid any sum of money for each of the two years ended 31 December 2011 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(iv) There has been no arrangement under which a Director has waived or agreed to any emoluments for each of the two years ended 31 December 2011.

(d) *Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and our associated corporations*

Immediately following completion of the Placing and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of the Directors in the shares, underlying shares or debentures of our Company and our 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 in which they are 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 entered in the register referred to therein, or which will be required to notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, once the Shares are listed, will be as follows:

<b>Name of Director</b>	<b>Name of Group member/ associated corporation</b>	<b>Capacity/ nature of interest</b>	<b>Number and class of securities</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Mr. Jiang	Our Company	Interest of a controlled corporation <i>(Note 2)</i>	1,008,000,000 Shares (L)	60%
	Bright Warm	Beneficial owner	1 share (L)	100%
Ms. Guo	Our Company	Family <i>(Note 3)</i>	1,008,000,000 Shares (L)	60%
	Bright Warm	Family <i>(Note 3)</i>	1 share (L)	100%
Mr. Li	Our Company	Interest of a controlled corporation <i>(Note 4)</i>	252,000,000 Shares (L)	15%

*Notes:*

- The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.
- The Shares are held by Bright Warm, the entire issued capital of which is beneficially owned by Mr. Jiang, one of the Controlling Shareholders of our Company and an executive Director.

3. Ms. Guo is the spouse of Mr. Jiang. Therefore, Ms. Guo is deemed to be interested in the 1,008,000,000 Shares owned by Mr. Jiang in the Company and 1 share owned by Mr. Jiang in Bright Warm by virtue of the SFO.
4. The Shares are held by Ordillia, the entire issued capital of which is beneficially owned by Mr. Li, one of the Substantial Shareholders of our Company and an executive Director.

## 2. Interest discloseable under the SFO and Substantial Shareholders

So far as is known to the Directors, immediately following completion of the Placing and the Capitalisation Issue (but without taking account of any Shares which may be taken up or acquired under the Placing and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the section headed “Further information about Directors and Shareholders — Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and our associated corporations” above, the following persons will have an interest or a short position in the 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, will 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 any other members of our Group:

Name of shareholder	Name of Group member	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Bright Warm (Note 2)	Our Company	Beneficial owner	1,008,000,000 Shares (L)	60%
Ordillia (Note 3)	Our Company	Beneficial owner	252,000,000 Shares (L)	15%
Ms. Ren	Our Company	Family (Note 4)	252,000,000 Shares (L)	15%

### Notes:

1. The letter “L” denotes the person’s long position in the shares of our Company or the relevant Group member.
2. Bright Warm is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Jiang, one of the Controlling Shareholders of our Company and an executive Director. Therefore, Mr. Jiang is also deemed to be interested in the 1,008,000,000 Shares owned by Bright Warm by virtue of the SFO.
3. Ordillia is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Li, one of the Substantial Shareholders of our Company and an executive Director. Therefore, Mr. Li is also deemed to be interested in the 252,000,000 Shares owned by Ordillia by virtue of the SFO.
4. Ms. Ren is the spouse of Mr. Li. Therefore, Ms. Ren is deemed to be interested in the 252,000,000 Shares owned by Mr. Li by virtue of the SFO.

### 3. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Placing or upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Placing and the Capitalisation Issue will have an interest or a short position in the Shares and 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 will, either 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 any other member of our Group;
- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any 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 any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in the section headed “Other information — Qualifications of experts” below has been interested in the promotion of, or has any direct or indirect interest in any assets which have 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 the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Placing Shares either in his own name or in the name of a nominee;
- (d) none of the Directors nor any of the parties listed in the section headed “Other information — Qualifications of experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Other information — Qualifications of experts” below:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

**OTHER INFORMATION****1. Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of all Shareholders passed on 27 May 2012.

**(a) Purpose**

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group

**(b) Who may join**

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (the “**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, clients and agents to the Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
  - (aa) contribution to the development and performance of our Group;
  - (bb) quality of work performed for our Group;
  - (cc) initiative and commitment in performing his/her duties; and
  - (dd) length of service or contribution to our Group.

(c) *Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 168,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by the Shareholders in general meeting; and/or

- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, consolidation, sub-division of shares or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(e) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the “**Cancelled Shares**”)) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the GEM Listing Rules from time to time with such Eligible Participant and his associates (as defined in the GEM Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders’ approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant

an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:

- (aa) the Eligible Participant's name, address and occupation;
- (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
- (cc) the date upon which an offer for an option must be accepted;
- (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
- (ee) the number of Shares in respect of which the option is offered;
- (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
- (gg) the date of the notice given by the grantee in respect of the exercise of the option;
- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c); and
- (ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the GEM Listing Rules.

(f) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.



(g) *Granting options to connected persons*

Any grant of options to a Director, chief executive or Substantial Shareholder of the Company or any of their respective associates (as defined in the GEM Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a Substantial Shareholder or any independent non-executive Director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the GEM Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant, such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting in favor, and/or such other requirements prescribed under the GEM Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 23.02(2)(c) and (d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
- (iv) the information required under Rule 2.28 of the GEM Listing Rules.

(h) *Restrictions on the times of grant of Options*

A grant of options may 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 announced pursuant to the requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the GEM Listing Rules); and ending on the date of actual publication of the results announcement.

(i) *Rights are personal to grantee*

An option is personal to the grantee. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) *Time of exercise of option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the date of approval of the Share Option Scheme by the Shareholders (the "**Adoption Date**"). Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten years from the Adoption Date.

(k) *Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) *Rights on ceasing employment/death*

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with the Company and/or any of its subsidiaries on one of more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as the Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Options in full (to the extent not already exercised).

(m) *Rights on dismissal*

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(n) *Rights on takeover*

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) *Rights on winding-up*

In the event that a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, 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 Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

(p) ***Rights on compromise or arrangement between the Company and its members or creditors***

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company no later than two Business Days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

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 does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) ***Ranking of Shares***

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation) as are attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(r) ***Effect of alterations to capital***

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 23.03(13) of the GEM Listing Rules and the note

thereto and the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issues relating to share option schemes. The capacity of the auditors of the Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issues relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) ***Expiry of option***

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n) or (o);
- (iii) the date upon which the scheme of arrangement of the Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of the Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date upon which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) ***Alteration of the Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules; or
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted;

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme must still comply with Chapter 23 of the GEM Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) *Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (i).

(v) *Termination of the Share Option Scheme*

The Company may by resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Division of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Lead Manager (for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) *Disclosure in annual and interim reports*

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the GEM Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 168,000,000 Shares in total.

## 2. Estate duty, tax and other indemnity

Mr. Jiang, Bright Warm, Mr. Li and Ordillia (the “**Indemnifiers**”) have entered into the Deed of Indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing; and
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2011;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2012 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 January 2012; and
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2011 or pursuant to any statement of intention made in the prospectus; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or



- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2011 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, each of the Indemnifiers has also undertaken to us that he/it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

### **3. Litigation**

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Company.

### **4. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$30,000 and are payable by our Company.

### **5. Promoters**

Our Company has no promoter for the purposes of the GEM Listing Rules.

### **6. Agency fees or commissions received**

The Underwriters will receive a commission of 3.5% of the aggregate Placing Price in respect of all the Placing Shares, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor will also receive fees relating to the Placing. Such commissions, selling concessions, fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK\$31.4 million (assuming no exercise of the Over-allotment Option), will be payable by our Company.

**7. Application for listing of Shares**

The Sponsor has made an application on behalf of our Company to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

**8. Qualifications of experts**

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Guotai Junan Capital Limited	Licensed corporation to carry on type 6 (advising on corporate finance) regulated activity as defined under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Appleby	Cayman Islands legal advisers
Commerce & Finance Law Offices	Qualified PRC lawyers
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Professional property valuer and consultant

**9. Consents of experts**

Each of Guotai Junan Capital Limited, Deloitte Touche Tohmatsu, Appleby, Commerce & Finance, and Jones Lang LaSalle Corporate Appraisal and Advisory Limited has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

**10. Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**11. Taxation of holders of Shares****(a) *Hong Kong***

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

**(b) *The Cayman Islands***

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(c) *Consultation with professional advisers***

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, the Directors or the other parties involved in the Placing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**12. Miscellaneous****(a) Save as disclosed herein:****(i) within two years preceding the date of this prospectus:**

(aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

**(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and**

- (b) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2011 (being the date to which the latest consolidated financial statements of our Group were made up).
  
- (c) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

**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 the written consents referred to in the section headed “Other information — Consents of experts” in Appendix IV to this prospectus, and copies of the material contracts referred to in the section headed “Further information about the business of our Group — Summary of material contracts” in Appendix IV to this prospectus

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Li & Partners at Rooms 2201-03, 22/F, World-Wide House, 19 Des Voeux Central, 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;
- (b) the Articles;
- (c) the accountants’ report of the Company prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (d) the letter on unaudited pro forma financial information issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (e) the audited financial statements of each of the companies comprising our Group except the Company for each of the two years ended 31 December 2011 (or for the period since their respective dates of incorporation where it is shorter), if any;
- (f) the letter prepared by Appleby summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this prospectus;
- (g) the Companies Law;
- (h) the legal opinions prepared by Commerce & Finance in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (i) the service contracts referred to in the section headed “Further information about Directors and Shareholders — Particulars of Directors’ service contracts” in Appendix IV to this prospectus;
- (j) the rules of the Share Option Scheme referred to in the section headed “Other information — Share Option Scheme” in Appendix IV to this prospectus;

- (k) the material contracts referred to in the section headed “Further information about the business of our Group — Summary of material contracts” in Appendix IV to this prospectus; and
- (l) the written consents referred to in the section headed “Other information — Consents of experts” in Appendix IV to this prospectus.