SUMMARY

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, 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 document), we principally prepare our quotation based on, including but not limited to, the project's geographic area and the estimated costs such as labour costs and material costs, with adjustment on a project-by-project basis. Cities located north of the Yangtze River and cities located south of the Yangtze River have different price scales.

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 document.

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 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 pepared 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 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 document.

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 document.

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

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 fibers networks to the telecommunication operators 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 document.

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 [●] expenses.

Other expenses

Apart from the [●] 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 [●] 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 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 balance 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 operation. 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 amount due to related parties; and (ii) settle part of the [●] expenses incurred during the four months ended 30 April 2012. We plan to use approximately HK$14.3 million from the [●] of the [●] 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			
	2010		2011	
	RMB'000	*%*	*RMB'000*	*%*
Deployment services of optical fibers – Construction contract revenue				
- Traditional deployment methods	16,093	31.2	55,952	34.6
- Micro-ducts and mini-cables system integration methods *(Note 1)*	29,659	57.6	56,686	35.0
Sub-total	45,752	88.8	112,638	69.6
Others				
- Services income *(Note 2)*	4,568	8.8	5,918	3.7
- Sales of goods *(Note 3)*	971	1.9	2,599	1.6
- Rental income *(Note 4)*	256	0.5	65	0.0
Sub-total	5,795	11.2	8,582	5.3
Low-voltage equipment integration services *(Note 5)*	—	—	40,514	25.1
Total	51,547	100.0	161,734	100.0

Notes:

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

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

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

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

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

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

	Backlog amount for projects as at 31 December 2010 *(RMB'000)* *(Note 1)*	**Backlog amount for projects as at 31 December 2011** *(RMB'000)* *(Note 1)*	**Total contractual amount for projects as at 18 May 2012** *(RMB'000)*
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

	Backlog amount for projects as at 31 December 2011 *(RMB'000)* *(Note 1)*	**Total contractual amount for projects as at 18 May 2012** *(RMB'000)*
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 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 document. You should read the Accountants' Report set out in Appendix I to this document 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	(28,215)	(54.7)	(86,692)	53.6
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)
[●] expenses	—	—	(9,068)	(5.6)
Finance costs	(201)	(0.4)	(1,942)	(1.2)
Profit before taxation	3,119	6.0	61,029	37.7
Income tax expense	(1,542)	(3.0)	(4,191)	(2.6)
Profit and total comprehensive income for the year	1,557	3.0	56,838	35.1
(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	2,849	5.5	1,457	0.9
	1,577	3.0	56,838	35.1
(Loss) earnings per share				
Basic (cents)	(0.1)		4.5	

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 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 [●] 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:

- 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 document. 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 [●] to be received by us from the [●], 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 document.

DIVIDENDS

For the two years ended 31 December 2010 and 2011, we did not declare any dividends. After [●], 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 [●]. 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.