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 document. 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 document.

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.

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.

	Revenue	**Gross profit**	**(Loss)/profit attributable to the equity holders of the Company**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
The Group			
For the year ended 31 December			
2010	51,547	23,332	(1,272)
2011	161,734	75,042	55,381

	Revenue	**Gross profit**	**Profit/(loss) for the year/period**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Shijiazhuang Qiushi			
For the year ended 31 December			
2010	13,448	4,667	3,564
For the two months ended 28 February			
2011	377	182	(61)

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 document. 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.

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 relationship 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 borrowings from Independent Third Parties of approximately RMB19.6 million incurred was used to (i) repay the amount due to related parties; and (ii) settle part of the [●] expenses 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.

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 document.

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 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 operation 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 operation 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 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 document.

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 document, 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.

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 upto 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;

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.

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 [●] expenses may affect the Group's results of operations. The Group has undertaken certain steps for the Reorganisation in anticipation of the [●]. 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 Comapny for the year ended 31 December 2010 would have been approximately RMB12.4 million.

In addition, as a result of the [●], [●] 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 operation 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 [●], 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.

(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.

FINANCIAL INFORMATION

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.

	Fair value
	RMB'000
Non-current assets	
Property, plant and equipment	717
Intangible assets	3
Deferred tax assets	2,024
Current assets	
Other receivables	4,766
Amounts due from related parties	531
Bank balances and cash	258
Current liabilities	
Trade and other payables	(1,886)
Amounts due to related parties	(4,021)
Other borrowings	(14,682)
	(12,290)
Non-controlling interests (10% of Hebei Deer)	545
Net liabilities acquired	(11,745)

Represented by:

	RMB'000
Subscription of Partnerfield's shares	119
Consideration paid to the existing shareholders of Partnerfield	85
Consideration transferred	204
Dilution of equity interests in Beijing U-Ton (10% in Beijing U-Ton)	1,789
Restructuring costs recognised as expense	(13,738)
	(11,745)

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

	RMB'000
Subscription of Partnerfield shares	(119)
Cash and cash equivalent balance acquired	258
	139

(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 this document 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.

(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

	RMB'000
Consideration payable (*Note 1*)	9,669
Fair value of Partnerfield's ordinary shares (*Note 2*)	31,867
Less: Cash received for subscription for Partnerfield's ordinary shares	(37)
Total	41,499

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.

Assets acquired and liabilities recognised at the date of acquisition

	Fair Value
	RMB'000
Non-current assets	
Property, plant and equipment	91
Intangible assets	1,528
Current assets	
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
Current liabilities	
Trade and other payables	(1,219)
Income tax payables	(68)
Non-current liabilities	
Deferred tax liabilities	(373)
	11,400

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

	RMB'000
Consideration transferred	41,499
Less: net assets acquired	(11,400)
Goodwill arising on acquisition	30,099

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

	RMB'000
Cash consideration paid	—
Cash and cash equivalent balance acquired	984
	984

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.

Our Company's statement of financial position as at 31 December 2011 is disclosed as below:

	At 31 December 2011
	RMB'000
Non-current assets	
Investment in unlisted shares in a subsidiary, at cost	47,004
Current assets	
Amount due from a subsidiary	932
Amount due from shareholders	—
	932
Current liabilities	
Other borrowing	932
Net current assets	—
Net assets	47,004
Capital and reserves	
Share capital	—
Capital reserves	47,004
	47,004

The financial information was prepared as a continuation of Beijing U-Ton and Hebei Changtong, Beijing U-Ton was deemed as the acquirer of the Former Partnerfield Group as a result of the First Acquisition. In addition, the Second Acquisition was accounted for as a business combination involving entities under common control as Hebei Changtong was controlled by Mr. Jiang both before and after the Second Acquisition.

The consolidated statements of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of our Group for the finanical year ended 31 December 2010 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 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 document. 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 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

- 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;

- 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.

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 were 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.

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.

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 document.

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 is approximately RMB7.2 million and RMB2.8 million, respectively. No allowance on inventories was recognised during the Track Record Period.

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 is approximately RMB0.03 million and RMB0.06 million, respectively.

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	
	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	1,577	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	

The table below set forth our Group's consolidated statements of financial position during the Track Record Period.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Non-current assets		
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
	7,692	38,724
Current assets		
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
	94,811	184,451
Current liabilities		
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
	66,410	108,809
Net current assets	28,401	75,642
Total assets less current liabilities	36,093	114,366
Non-current liabilities		
Deferred tax liabilities	831	2,197
Net assets	35,262	112,169
Capital and reserves		
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	—
Total equity	35,262	112,169

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	
	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.

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.

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*	*%*
Cities/districts within Hebei Province				
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	34,468	75.3	100,024	88.8
Cities/districts outside Hebei Province				
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	11,284	24.7	12,614	11.2
Total construction contract revenue	45,752	100.0	112,638	100.0

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 telecomunnication 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 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.

	Year ended 31 December			
	2010		**2011**	
	RMB'000	*%*	*RMB'000*	*%*
Labour costs	19,417	68.8	48,758	56.2
Material costs	6,811	24.1	32,821	37.9
Others	1,987	7.1	5,113	5.9
	28,215	100.0	86,692	100.0

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.

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:

	Year ended 31 December			
	2010		**2011**	
	RMB'000	*%*	*RMB'000*	*%*
Construction contract revenue				
- Traditional deployment methods	11,068	39.2	31,199	36.0
- Micro-ducts and mini-cables system integration methods	14,341	50.9	24,716	28.5
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	—	—	26,364	30.4
	28,215	100.0	86,692	100.0

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	
	RMB'000	*%*	*RMB'000*	*%*
Gross profit by services				
Construction contract revenue				
- Traditional deployment methods	5,025	21.5	24,753	33.0
- Micro-ducts and mini-cables system integration methods	15,318	65.6	31,970	42.6
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	—	—	14,150	18.9
	23,332	100.0	75,042	100.0

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
	%	*%*
Gross profit margin by services		
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
Total	45.3	46.4

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.

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:

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

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

The average gross profit margin of the 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.

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 document; (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 document; 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:

	Year ended 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
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 *(Note)*	—	2,735
	(13,747)	10,879

Note: This amount mainly represented the subsequent collection of other receivables by Hebei Deer which was fully written-off before the First Acquisition.

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:

	Year ended 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Building cost of experimental section for trial	446	1,057
Staff costs	—	867
Depreciation	99	219
Business travelling expenses	56	153
Others	466	949
	1,067	3,245

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:

	Year ended 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
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	1,155	1,599
	5,237	10,771

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:

	Year ended 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Current tax:		
PRC enterprise income tax	1,181	3,129
Under provision in prior year	—	2
	1,181	3,131
Deferred tax		
Current year	9	(306)
Withholding tax	352	1,366
	361	1,060
	1,542	4,191

	Year ended 31 December	
	2010	**2011**
	%	**%**
Effective tax rate (*Note*)	9.1	6.9

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.

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
	RMB'000	*RMB'000*
Profit before taxation	3,119	61,029
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 *(Note 1)*	—	(2,842)
Concessionary rates granted to a PRC subsidiary	(352)	(56)
Taxable income estimated on total revenue *(Note 2)*	(2,715)	(12,628)
Under provision in prior year	—	2
Withholding tax on undistributed profit of PRC entities	352	1,366
Tax charge for the year	1,542	4,191

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 document.

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.

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 document.

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 (i) 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 millon 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 document. 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 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 milion 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.

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.

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 the 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 [●] expenses of approximately RMB9.1 million during the year ended 31 December 2011.

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 19%. The cash flows beyond the 5-year period are extrapolated using an estimated growth rate 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	3,707	1,790
	7,249	2,846

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.

The following table set out a summary of our inventory turnover days for the periods indicated.

	Year ended 31 December	
	2010	**2011**
Inventory turnover days *(Note)*	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.

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Trade receivables	15,053	62,320
Bill receivables	—	3,996
	15,053	66,316

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.

An aged analysis of our trade and bill receivables as at the dates specified, based on invoice/completion certificate date, is as follows:

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
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	—
Total trade and bill receivables	15,053	66,316

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.

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:

	(RMB in million)
Amount of trade receivables recognised without the final inspection certificates as at 31 December 2011	**2.6**
Amount of trade receivables recognised without the final inspection certificates but with invoices as at 31 December 2011	**1.7**
- Subsequent settlement up to 29 May 2012	0.1
- Unsettled balance as at 29 May 2012 (*Note 1*)	1.6
Amount of trade receivables recognised without the final inspection certificates and invoices as at 31 December 2011	**0.9**
- Subsequent billings up to 29 May 2012 (*Note 2*)	0.3
- Unbilled balance as at 29 May 2012 (*Note 3*)	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 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 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 movement of allowance to impairment of receivables as at 31 December 2010 and 2011:

	Year ended 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Balance at beginning of year	—	—
Additional amounts recognised during the year	—	207
Balance at end of year	—	207

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:

	Year ended 31 December	
	2010	**2011**
Trade and bill receivable turnover days *(Note)*	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 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.

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profit or loss	16,856	63,480
Less: progress billings	—	—
	16,856	63,480

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.

The table below set forth the summary of status of our projects:

	At 31 December	
	2010	**2011**
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)
Amounts due from customers for contract work as at 31 December 2011	**63.5**
Amounts due from customers for contract work with invoices as at 29 May 2012 (Note)	**9.4**
- Settlement up to 29 May 2012	4.2
- Unsettled balance as at 29 May 2012	5.2
Amounts due from customers for contract work without invoices as at 29 May 2012	**54.1**

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 relationship with us, we will usually (i) obtain a copy of business licenses of clients; and (ii) perform background search regarding the financial and legal position of the clients so as to assess the credit reliability of our clients before entering into an agreement with them.

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.

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Other receivables — non-trade	5,053	50
Staff loans	1,011	—
Advances to suppliers	367	1,215
Deposits	208	1,086
Other	330	331
	6,969	2,682

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 [●].

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	2011
	RMB'000	*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	—
	861	—

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 [●]. As advised by Commence & Finance, legal advisers to our Company as to PRC law, 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.

Trade and other payables

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
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	3,376	5,795
	23,997	61,269

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.

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
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	—	25
	15,266	42,309
Trade and bill payables turnover days *(Note)*	197	178

Note: Trade and bill payables turnover days equal to trade and bill payables divided by cost of sales/services and mulitplied 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.

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 [●] 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:

	At 31 December	
Name of related party	**2010**	**2011**
	RMB'000	*RMB'000*
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
	16,616	39,084

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 before [●] and the remaining balance of the amounts due to related parties in non-trade nature of approximately RMB0.5 million had been settled before [●].

Bank and other borrowings

The following table set forth the bank and other borrowings as at the dates indicated:

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Secured bank borrowings	9,997	4,956
Other borrowings	14,682	932
	24,679	5,888

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:

	At 31 December	
	2010	**2011**
	%	%
Floating-rate borrowings	5.84	7.26

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[(Note)] 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.

Note: The corresponding grade and period referred to the period from the date of prepayment to the maturity date of trade receivables

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:

	At 31 December		**At Latest Practicable**
	2010	**2011**	**Date**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of trade receivables charged	6,166	6,195	9,804
Handling fee incurred (*Note*)	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 operation during the Track Record Period and up to the Latest Practicable Date.

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:

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Interest-bearing at 5% per annum computed on daily basis . . .	10,122	—
Non-interest bearing.	4,560	—
	14,682	—

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 document. 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 (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 document.

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.

	Year ended 31 December 2010		**Two months ended 28 February 2011**	
	RMB'000	*%*	*RMB'000*	*%*
Revenue	13,448	100.0	377	100.0
Cost of sales	(8,781)	(65.3)	(195)	(51.7)
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	(853)	(6.4)	(102)	(27.1)
Profit (loss) before taxation	3,819	28.4	(63)	(16.7)
Income tax expense/credit	(255)	(1.9)	2	0.5
Profit (loss) and total comprehensive income for the year/period	3,564	26.5	(61)	(16.2)

STATEMENTS OF FINANCIAL POSITION

	At 31 December 2010	At 28 February 2011
	RMB'000	*RMB'000*
Non-current assets		
Property, plant and equipment	97	91
Deferred tax assets	—	9
	97	100
Current assets		
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
Current liabilities		
Trade and other payables	3,475	1,219
Income tax payable	220	68
	3,695	1,287
Net current assets	10,218	10,154
Total assets less current liabilities	10,315	10,254
Net assets	10,315	10,254
Capital and reserves		
Paid-in capital	10,180	10,180
Reserves	135	74
Total equity	10,315	10,254

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	At 28 February 2011
	RMB'000	*RMB'000*
Inventories	2,198	2,269

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 *(Note)*	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 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.

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:

	At 31 December 2010	At 28 February 2011
	RMB'000	*RMB'000*
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

	Year ended 31 December 2010	Two months ended 28 February 2011
Trade receivable turnover days *(Note)*	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 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.

Other receivables, deposits and prepayments

The following table set forth the components of Shijiazhuang Qiushi's other receivables, deposits and prepayments.

	At 31 December 2010	At 28 February 2011
	RMB'000	*RMB'000*
Other receivables — non-trade	1,050	50
Advances to suppliers	75	171
Advances to employee	125	155
Deposits	110	110
	1,360	486

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 December 2010	At 28 February 2011
	RMB'000	*RMB'000*
Trade payables	2,684	341
Advances from third parties	124	279
Accrued payroll	433	461
Other payables	234	138
	3,475	1,219

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.

	At 31 December 2010	At 28 February 2011
	RMB'000	*RMB'000*
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	—	34
	2,684	341
Trade payables turnover days *(Note)*	112	105

Note: Trade payables turnover days equal to trade payables divided by cost of sales and mulitplied 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:

	Year ended 31 December 2010	Two months ended 28 February 2011
	RMB'000	*RMB'000*
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	321	1,452
Cash and cash equivalents at end of the year/period	1,452	984

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.

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**
	RMB'000	*RMB'000*
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	8,691	(12,061)
Net increase (decrease) in cash and cash equivalents	27,838	(3,422)
Cash and cash equivalents at beginning of the year	19,384	47,222
Cash and cash equivalents at end of the year	47,222	43,800

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.

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 [●] from new bank loans and other borrowings raised of approximately RMB35.4 million and advance from related parties of approximately RMB31.9 million.

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:

	At 31 December	
	2010	**2011**
Current ratio (1)	1.4	1.7
Quick ratio (2)	1.3	1.7
Gearing ratio (3)	0.7	0.1

	Year ended 31 December	
	2010	**2011**
Return on equity (4)	4.5%	50.7%
Return on total assets (5)	1.5%	25.5%
Interest coverage (6)	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 financial costs and income tax expense divided by the financial 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.

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 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:

	At 31 December		At 30 April
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*
Current assets			
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	47,222	43,800	35,851
Total current assets	94,811	184,451	190,348
Current liabilities			
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	1,093	2,508	2,580
Total current liabilities	66,410	108,809	100,430
Net current assets	28,401	75,642	89,918

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 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 before [●].

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

Our Directors believe that after taking into account our cash flows from operations and the [●] from the [●], we will have sufficient working capital for our operations in the next 12 months from the date of this document.

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 [●] from the [●] and/or proceeds from our bank borrowings.

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.

	Year ended 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Property, plant and equipment	1,688	2,564
Deemed acquisition of Former Partnerfield Group	13,738	—
Acquisition of Shijiazhuang Qiushi	—	9,699
	15,426	12,263

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, [●] from the [●] 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.

	At 31 December		At 30 April
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Secured bank borrowings	9,997	4,956	7,843
Unsecured other borrowings	14,682	932	20,532*(Note)*
Amounts due to related parties	16,616	39,084	20,000
	41,295	44,972	48,375

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$2.8 million, which was unsecured and carried interest of 10% per annum. The Group has repaid approximately HK$1.65 million before 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 HK$9,471,220, which was interest-free and unsecured.

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.

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 document, 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.

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.

	At 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Within one year	137	1,265
In the second to fifth year inclusive	163	1,027
	300	2,292

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, the injury claim amount will be approximately RMB0.5 million, 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:

	As at 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Capital expenditure in respect of the acquisition of property, plant and equipment	50	83

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 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 document.

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.

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.

	Effective interest rate	Carrying amount
		RMB'000
As at 31 December 2010		
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	—	4,560
		64,327
As at 31 December 2011		
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%	932
		102,025

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.

DIVIDENDS

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

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.

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 document, 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 document.