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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8232

2012
ANNUAL REPORT

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Jiang Changqing (姜長青) (Chairman)
Guo Aru (郭阿茹)
Li Qingli (李慶利)

Independent Non-Executive Directors

Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)
Li Xiaohui (李曉慧)

Company Secretary

Pang Chun Kit (彭俊傑) (ACCA, HKICPA)

Compliance Officer

Li Qingli (李慶利)

Audit Committee

Li Xiaohui (李曉慧) (Chairlady)
Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)

Nomination Committee

Meng Fanlin (孟繁林) (Chairman)
Li Xiaohui (李曉慧)
Wang Haiyu (王海玉)

Remuneration Committee

Wang Haiyu (王海玉) (Chairman)
Meng Fanlin (孟繁林)
Li Xiaohui (李曉慧)

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Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

8232

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors (the "Board") of China U-Ton Holdings Limited (the "Company"), I am pleased to present the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

2012 was an important milestone for the Group. The Company was successfully listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("Listing") on 12 June 2012 ("Listing Date"), which not only represented a recognition of our Group's solid capabilities in optical fiber deployment solutions in China, but also provided a platform for the Group to gain access to the international capital market to facilitate future growth. Moreover, the successful listing enhanced our reputation, strengthened the corporate governance and compliance management, as well as established a good foundation for our further expansion. I would like to once again thank all the professional parties and our management team for their joint efforts in making the Listing a success.

During the year, benefiting from the PRC's favorable policies of replacing copper wire by optical fiber, connecting optical fiber to the home (the "FTTH") and Tri-network convergence together with the blooming demand for mobile internet, the optical fiber deployment business of the Group continued to expand and achieved lucrative results for its first report after Listing. For the year ended 31 December 2012, revenue of the Group was approximately RMB246,368,000, increased substantially by approximately 52.3% year-on-year, reaching a historical record high level since its inception. Gross profit increased notably to RMB109,289,000 from RMB75,042,000 for the same period last year. Although the Group's expenditure increased due to Listing costs while experiencing substantial decrease in non-cash other gains, net profit for the Group still recorded a growth of 15.6% to approximately RMB65,708,000. Earnings per share was approximately RMB4.4 cents.

The Group is based in Hebei Province and is mainly engaged in providing one-stop integrated optical fiber deployment solutions and services to telecommunication operators in the PRC. The Group targets at major domestic telecommunication operators in the PRC which are rapidly expanding and upgrading their optical fiber network coverage. Therefore, we have introduced the micro-ducts and mini-cables system integration method for deployment of optical fibers deployment. By using existing public sewer system as platform to deploy optical fibers, such method addresses specific urban environmental difficulties of road excavation, pollution and traffic congestion encountered by the traditional technology and avoids the time delay in the application for licences. As a result, the construction cycle is shortened substantially with a decrease in our costs. Our Group owned a total of 24 appearance design, utility and invention patents in micro-ducts and mini-cables related technologies, and entered into agreements to use the public sewer systems in a total of 11 distinct locations in ten different districts or cities in the PRC. In addition, one of the wholly owned subsidiaries of the Group was awarded the Grade A Enterprise Qualification Certificate of Integrated Telecommunication and Information Network Systems by the Ministry of Industry and Information Technology of the PRC ("MIIT") on 20 June 2012 which allowed the Group to undertake all types of telecommunication and information network construction projects. Representing the solid competitive advantages in the areas of technologies, resources, quality reputation and professional certification of the Group, we believe that the aforesaid accreditation will support the expansion of our business to various regions of the PRC in the coming years.

Prospects

The PRC's "Broadband China" (寬頻中國) strategy aims to increase the number of fixed line broadband access users to over 250 million by the end of the "Twelfth Five-year Plan". The MIIT also implemented a mandatory policy that obligates each household in all new buildings to have optical fiber broadband access. Both policies have consistently reflected the strong expansion of the optical fiber and broadband network across the nation as scheduled, and confirmed the enormous demand for optical fiber deployment business in the foreseeable future. In addition, the demand for mobile internet services in the PRC has been increasing due to the popularity of smart terminals. Operators are required not only to increase the numbers of base stations for 3G network/capacity expansion to enhance network performance, but also to commence 4G network development plans to seize market shares. The Board believes that our capability to provide efficient, cost effective, convenient construction and maintenance services to telecommunication operators through deployment of the micro-ducts and mini-cables system integration technology will allure great opportunities in the telecommunication market, and together with our pragmatic and proactive marketing strategies and sales plan, we are set to further expand the coverage of our services and market shares.

In order to capture the fast developing opportunities of the broadband network in the PRC, the Group has already increased its sales efforts to penetrate further into the northern China region, such as Hebei Province, Beijing and Shenyang, and was targeted to expand to Tianjin, Chongqing, Sichuan Province, Guangdong Province and Yunnan Province. Through various forms of cooperation with local enterprises on the provision of optical fiber deployment services and technology transfer, it is expected we could enter the market within the shortest period of time and secure a market share. The Group understands the exclusive usage rights of public sewer systems are limited resources. The management has started to communicate with governments of various provinces and municipalities to accumulate the usage to strengthen the Group's competitive advantages and lay a foundation for regional expansion in the next few years. Moreover, the Group will continue to engage in research and development and innovations, and to pursue excellence in quality, for a better positioning in the industry. More efforts will be made to strengthen internal control and management, strictly control production cost and operating expenses, so as to increase the overall profitability of the Group and maximize the returns for shareholders.

Appreciation

Finally, the Board would like to express sincere thanks to our customers, business partners, suppliers and shareholders for their persistent support to the Group, and our appreciation for the efforts and endeavors made by our management and staffs during the past year to achieve remarkable results for the Group.

Jiang Changqing
Chairman and Executive Director

Hong Kong, 25 March 2013

FINANCIAL HIGHLIGHTS & SUMMARY

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
in RMB'000	**2012**	2011	2010
Revenue	**246,368**	161,734	51,547
Cost of Sales	**(137,079)**	(86,692)	(28,215)
Gross Profit	**109,289**	75,042	23,332
Other gains and losses	**931**	10,879	(13,747)
Listing Expenses	**(10,411)**	(9,068)	—
Profit (loss) for the year attributable to equity holders of the Company	**65,708**	55,381	(1,272)

FINANCIAL SUMMARY

	Year ended 31 December		
in RMB'000	**2012**	2011	2010
RESULTS			
Revenue	**246,368**	161,734	51,547
Profit before income tax	**75,133**	61,029	3,119
Income tax expenses	**(9,425)**	(4,191)	(1,542)
Profit for the year	**65,708**	56,838	1,577

	Year ended 31 December		
in RMB'000	**2012**	2011	2010
ASSETS AND LIABILITIES			
Total assets	**453,530**	223,175	102,503
Total liabilities	**151,281**	111,006	67,241
Net assets	**302,249**	112,169	35,262

Business Review

The Group was successfully listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 12 June 2012, which further strengthened our position as a leading high-tech deployment services provider of optical fibers in China, and built the platform for funding and laid the foundation for future development. In 2012, demand for optical fiber deployment grew rapidly in light of the "Broadband China" strategy as well as favorable policies such as the "nationwide upgrade from copper wire coaxial cable to fiber optic network" and the "fiber-to-the-home". According to the data released by the MIIT, the number of newly increased fiber-to-the-home households was more than 49 million in 2012, representing a significant increase by 9% from 45 million in 2011. As at 31 December 2012, fiber-to-the-home covered more than 94 million households in China. Leveraged on our leading micro-duct and mini-cable deployment technology, strong research and development capabilities and exclusive patents, the Group successfully seized market opportunities and created lucrative results.

Revenue

During the year ended 31 December 2012 ("the Period"), the Group's revenue significantly increased by 52.3% over the same period last year to approximately RMB246,368,000 (2011: RMB161,734,000). The Group is principally engaged in the provision of optical fiber deployment services and low-voltage equipment integration services. During the Period, these two businesses accounted for 70.9% and 29.1% of our overall revenue, respectively. In 2012, our deployement services of optical fibers achieved a breakthrough in growth again, with service areas further expanded outside Hebei province, driving the substantial increase in revenue from this business segment by 44.1% to RMB174,706,000 (2011: RMB121,220,000). The low-voltage equipment integration service grew greatly, with revenue increased by 76.9% to RMB71,662,000 from RMB40,514,000 in 2011.

	2011 RMB'000	**2012** **RMB'000**	**% Increase**
Deployment services of optical fibers	121,220	**174,706**	44.1
Low-voltage equipment integration services	40,514	**71,662**	76.9
Total	161,734	**246,368**	52.3

Gross profit and gross profit margin

The overall gross profit increased by 45.6% to RMB109,289,000 from RMB75,042,000 in 2011. The gross profit margin slightly decreased by 2.0% over the same period last year to 44.4%. During the Period, the Group actively promoted the application of micro-duct and mini-cable deployment technology to enable their wide recognition by telecommunication operators. As the Group had a number of technology patents in this deployment method and the exclusive rights in using the sewer systems, our strength rendered the group a favourable position, gave us an overall pricing advantage and fuelled the growth of the Group's gross profit. However, in 2012, the gross profit margin decreased slightly by 2.0% from 46.4% to 44.4% as the revenue from low-voltage equipment integration services increased greatly by 76.9% and whose gross profit margin was comparatively lower than that of deployment services of optical fibers. In addition, gross profit margin of deployment service of optical fibers dropped slightly too.

The following table set forth the gross profit of our businesses:

	2011 RMB'000	**2012** **RMB'000**	**% Increase (decrease)**
Deployment services of optical fibers	60,892	**85,542**	40.5
Low-voltage equipment integration services	14,150	**23,746**	67.8
Total	75,042	**109,289**	45.6

The following table set forth the gross profit margin of our businesses:

	2011 %	**2012** **%**	**% Increase (decrease)**
Deployment services of optical fibers	50.2%	**49.0%**	(1.2)
Low-voltage equipment integration services	34.9%	**33.1%**	(1.8)
Total	46.4%	**44.4%**	(2.0)

Deployment services of optical fiber

The Group completed 52 projects during the year ended 31 December 2012 and had 15 projects in progress of micro-ducts and mini-cables system integration projects as at 31 December 2012, with construction contract revenue increasing by 83.1% over the same period last year to RMB103,790,000 (2011: RMB56,686,000), accounting for 62.8% of this business. As the Group focused on the development of micro-ducts and mini-cables system integration projects with higher gross profit and advantages, the percentage of revenue from traditional deployment business further shrank. Further, the Group completed 103 projects during the year ended 31 December 2012 and had 72 projects in progress of traditional deployment projects as at 31 December 2012, with revenue increasing by 9.8% over the same period of last year to RMB61,420,000 (2011: RMB55,952,000), accounting for 37.2% of this business.

Turnover

	2011 RMB'000	2012 RMB'000	% Increase (decrease)
Deployment services of optical fibers - Construction contract revenue			
- Traditional deployment methods	55,952	**61,420**	9.8
- Micro-ducts and mini-cables system integration methods	56,686	**103,790**	83.1
Sub-total	112,638	**165,210**	46.7
Others			
- Services income	5,918	**8,441**	42.6
- Sales of goods	2,599	**990**	(61.9)
- Rental income	65	**65**	—
Sub-total	8,582	**9,496**	10.7
Total	121,220	**174,706**	44.1

Gross profit & Gross profit margin

The following table sets forth the gross profit of each type of deployment services of optical fiber:

	2011 RMB'000	2012 RMB'000	% Increase (decrease)
Gross profit by services			
Construction contract revenue			
- Traditional deployment methods	24,753	**24,803**	0.2
- Micro-ducts and mini-cables system integration methods	31,970	**55,081**	72.3
Sub-total	56,723	**80,882**	42.6
Services income	3,266	**4,160**	27.4
Sales of goods	868	**466**	(46.3)
Rental income	35	**35**	—
	60,892	**85,542**	40.5

The following table sets forth the gross profit margin of each type of our services:

	2011	**2012**
	%	**%**
Gross profit margin by services		
Construction contract revenue		
- Traditional deployment methods	44.2	**40.4**
- Micro-ducts and mini-cables system integration methods	56.4	**53.1**
Sub-total of construction contract revenue	50.4	**49.0**
Services income	55.2	**49.3**
Sales of goods	33.4	**47.1**
Rental income	53.8	**53.8**
Total	50.2	**49.0**

Major customer and service network

Based in Hebei Province, the Group principally provides one-stop optical fiber deployment solutions for telecommunication operators in China. Our major customers include China Mobile Communications Corporation ("China Mobile"), a major telecommunication operator in China, and other regional telecommunication operators. During the Period, sales to China Mobile accounted for 50.3% of the Group's total revenue (2011: 66.0%). As the Group maintained a favourable position in terms of resource in the industry of both micro-ducts and mini-cables system deployment technology, we obtained our contracts of that kind mainly through negotiated tender, while for traditional deployment business we mainly compete for contracts through open tender.

As as 31 December 2012, the Group's service network covered Beijing and 10 provinces in China, including Hebei, Shandong, Shaanxi, Hunan, Jiangxi, Liaoning, Anhui, Henan, Sichuan and Inner Mongolia.

Contract progress

Depending on the complexity of projects, the construction period for deployment of optical fibers was approximately from seven to nine months. The following table sets forth the details of backlog revenue:

	As at 31 December 2012			
	Number of projects	Total contractual amount RMB'000	Recognized revenue RMB'000	Backlog revenue RMB'000
Micro-ducts and mini-cables				
System integration method	17	65,120	38,145	26,975
(i) Projects in progress	15	47,017	38,145	8,872
(ii) Projects to be commenced	2	18,103	—	18,103
Traditional deployment method	89	111,981	30,577	81,404
(i) Projects in progress	72	63,964	30,577	33,387
(ii) Projects to be commenced	17	48,017	—	48,017
Total	106	177,101	68,722	108,379

The backlog revenue is mainly sourced from projects located in Zhangjiakou, Tangshan and Shijiazhuang of Hebei Province.

Micro-ducts and mini-cables system integration method

Traditionally, optical fibers are deployed by way of direct burial which requires excavation of roads. Therefore, it not only takes time to apply for the relevant permits, but also may cause traffic congestion and environmental pollution. This deployment method is very inconvenient in populated areas with high density of buildings, which is an insurmountable problem for telecommunication operators in achieving network upgrade and capacity expansion. Taking the advantage of this market insufficiency, the Group applied the micro-ducts and mini-cables system deployment technology by using existing public sewer pipeline system as the routing to deploy optical fibers. The technology avoids excavation and subsequent reinstatement of roads, and significantly reduces the construction period and construction costs, which has an absolute advantage in metropolitan areas. It provides a high-efficiency, comparatively low-cost, convenient-construction-and-maintenance solution for telecommunication operators. With the Group's vigorous promotion and active improvement on related technologies, the micro-ducts and mini-cables system deployment method is recognized and welcomed by our major customers, especially when applying in the network construction in metropolitan areas.

As a pioneer to micro-ducts and mini-cables system deployment technology in China, the Group keeps ahead of its peers with a number of advantages in terms of resources and technologies. One of the preconditions to apply micro-ducts and mini-cables system deployment technology is to obtain the usage rights of the public sewer systems. As the inherent issue of exclusiveness in using public sewer pipeline system arises once the Group commenced operations, hence, we regard the use rights as a resource investment. At present, the Group has obtained the exclusive rights in using the sewer systems in 10 districts or cities including Changping district of Beijing, Xuanhua district of Zhangjiakou, Chengde, Qinhuangdao, Baoding, Xingtai, Shahe, Handan, Jinan and Meishan, and the non-exclusive right in Hengshui. Meanwhile, relying on our successful track records and exclusive technologies, we also actively approach government departments in other provinces and accumulate the usage rights of public sewer systems in various districts to further consolidate our competitive strength. In addition, the Group has actively involved in the research and development of micro-ducts and mini-cables system related products as well as the upgrade of deployment technologies. Currently, we have owned a total of 24 appearance design, utility and invention patents. Among these 24 appearance design and patents, six are jointly owned by a major telecommunication operator and the Group. Especially in the production of micro-ducts products, the Group has a patented formula which is effective for reducing the wear and tear of micro-ducts under harsh environment (such as sewers) whilst maintaining stable signal transmission. Therefore, the Group's solutions are not only welcomed by telecommunication operators, but also recognized by government departments in different areas.

Low-voltage equipment integration business

To further broaden the revenue base, the Group acquired Shijiazhuang Qiushi Communication Facilities Co., Ltd. (石家莊求實通信設備有限公司) in 2011 to provide low-voltage equipment integration service. This business mainly provides intelligent management and monitoring solutions, such as Enterprise Resources Planning System, intelligent office and intelligent building management systems as well as road safety monitoring system for industrial commerce and public institutions. In the fourth quarter of 2012, driven by a governmental related project and a highway monitoring system project located in Hebei Province with the total contract value amounted to approximately RMB53,000,000, the low-voltage equipment integration service grew greatly with revenue increasing by 76.9% to RMB71,662,000 from RMB40,514,000 in 2011.

Progress of contracts

Depending on the complexity of projects, installation period for low-voltage equipment integration projects typically ranges from 1 month to half a year. As at 31 December 2012, most of the projects were completed and there was no significant amount of backlog revenue.

Prospects and plans

As a country with the most number of Internet users in the world, China has a network speed which is still consolidated at a low level. To keep pace with the development of new generation communication, the MIIT put forward the development strategy of "Broadband China" in 2011, with the goal that by the expiration of the "12th Five-Year" plan, national fixed broadband access users will exceed 250 million, and China's urban and rural households will obtain broadband access capacity of 20 MB and 4 MB, respectively. Undoubtedly, we expect that this will greatly promote the growth of optical fibers network and the demand for deployment service. To speed up implementation of the policy of "fiber-to-the-home", at the end of 2012, the MIIT further issued two national standards, namely, "Code for design of Fiber-to-the-home Communication Facility Engineering in Residential Areas and Residential Buildings" (《住宅區和住宅建築內光纖到戶通信設施工程設計規範》) and "Code for Construction and Acceptance Inspection of Fiber-to-the-home Communication Facility Engineering in Residential Areas and Residential Buildings" (《住宅區和住宅建築內光纖到戶通信設施工程施工及驗收規範》), which provided that from 1 April 2013, similar to water, electricity and gas, the optical fibers network should be directly connected to every household in new buildings. On the other hand, the development of mobile communication network cannot be overlooked as well. With popularity of smart mobile terminals, data flows substantially increased. Current mobile communication network based on mainstream 2G technology in China is overloaded, and the upgrade of networks is imperative. Major telecommunication operators either invested in the network upgrade from 2G to 3G or built more base stations for existing 3G networks in order to expand the capacity and solve the flow pressure. China Mobile has first announced a development plan for 4G network, targeting to build a total of 200,000 4G base stations during 2013 to speed up the upgrade of wireless networks. Furthermore, China Mobile is planned to invest approximately RMB40 billion in 4G/LTE mobile network construction. Optical fibers and optical fiber cables are important backbones connecting the constructions of base stations to broadband/communication networks. Therefore, telecommunication operators will demand deployment services of optical fibers in terms of base station construction, network construction and post-maintenance. We believe that this will bring about huge opportunities for the Group's business.

The Group has planned to strengthen its sales effort, expand the service networks and actively promote micro-ducts and mini-cables system deployment technology. We will consolidate our businesses in Northern China leveraging on the network advantages in Hebei Province and the usage rights of the sewer systems acquired, targeting to further penetrate into Beijing and Shenyang markets and actively develop the Tianjin market in 2013. Furthermore, we will also expand our service networks to Sichuan Province, Guangdong Province and Yunnan Province, Chongqing and other major cities in Southern China and Western China. We desire to further promote our micro-ducts and mini-cables system deployment technologies and strive for a greater market share with our successful track records. Combining the Group's technological advantage with its rich experience in micro-ducts and mini-cables system, we will enter the above-mentioned markets through self-supporting tender, merger and acquisition or cooperation with local enterprises. Currently, after approaching the government departments in the aforesaid cities to strive for obtaining the usage rights of the sewer systems, our Group has passed the relevant tests prescribed by the government and obtained the certifications. It is believed that this will further accelerate the pace of our market penetration.

The Group recognizes that there are limited resources of sewer systems, so we will reserve the use rights as a strategic objective for development. Currently, the Group is actively communicating with the government departments in different provinces to strive for the obtaining of exclusive rights in using the sewer systems as a foundation for entering the aforesaid markets. Through continuous accumulation of the use rights in each region, the Group will strengthen its competitive advantage and lay the foundation for future regional expansion. In June 2012, one of the wholly owned subsidiaries of the Group received Grade I in Enterprise Qualification Certificate in Communication Information Network System Integration (通信信息網絡系統集成企業資質證書甲級資質) granted by the MIIT, which meant that we are recognized by the market and the government departments for our technologies, resources, quality, credibility and professionalism, and met the qualifications for launching various communication information network projects, hence further strengthening our competitive advantage in developing the national market. With the Group's micro-ducts and mini-cables system technology as well as the exclusive sewer systems usage rights, we believe that we will be able to accurately grasp the potential of the optical fiber deployment market and create more brilliant performance.

Financial Review

	2011 RMB'000	**2012 RMB'000**	**% Increase (decrease)**
Turnover	161,734	**246,368**	**52.3**
Cost of Sales	86,692	**137,079**	**58.1**
Gross Profit	75,042	**109,289**	**45.6**
Gross Profit margin	46.4%	**44.4%**	**(2.0)**
Net Profit	56,838	**65,708**	**15.6**
Net Profit margin	35.1%	**26.7%**	**(8.4)**
Basic earnings per share (cents)	4.5	**4.4**	**(2.2)**
Profit for the year attributable to equity holders	55,381	**65,708**	**18.6**
Adjusted net profit (Note 1)	55,027	**76,582**	**39.2**
Adjusted net profit margin	34.0%	**31.1%**	**(2.9)**
Basic adjusted earnings per share (cents)	4.5	**5.1**	**13.3**
Return on equity (Note 2)	50.7%	**21.7%**	**(29.0)**
Adjusted return on equity (Note 3)	49.1%	**25.3%**	**(23.8)**

Note 1: Adjusted net profit being net profit excluding listing expenses, whole amount of non-recurrent other gains and losses and non-cash equity-settled share-based expenditure (share option expenditure).

Note 2: Being dividing net profit for the year by the total equity.

Note 3: Being dividing adjusted net profit for the year by total equity.

Turnover

The Group's turnover for the year of 2012 was approximately RMB246,368,000, representing an increase of approximately 52.3% over the corresponding period of the previous year. The increase in the Group's turnover was due to increase of turnover from construction revenue of deployment services of optical fiber and service revenue of low-voltage equipment integration services.

Deployment of optical fibers

Construction contract revenue

The construction contract revenue, being the income generated from our provision of the deployment services of optical fibers, was approximately RMB165,210,000 and RMB112,638,000, representing approximately 67.1% and 69.6% of the total revenue of the Group for the year ended 31 December 2012 and 2011, respectively. The increase in construction revenue for the year ended 31 December 2012 as compared to the same period in 2011 was mainly due to the increase in the revenue derived from the provision of deployment services of optical fibers in Beijing, Shenyang of Liaoning Province, and Hengshui, Chengde and Zhangjiakou of Hebei Province, and new revenue from Sichuan as a result of geographical expansion of our business. In the fourth quarter of year 2012, the Group provided more deployment services of optical fibers in Garze Tibetan Autonomous Prefecture of Sichuan, Shenyang of Liaoning and Zhangjiakou of Hebei where approximately RMB38,000,000 construction revenue was generated from these three regions.

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 RMB8,441,000 and RMB5,918,000, for the year ended 31 December 2012 and 2011 respectively. There was a new service income from Jinan of Shandong Province amounted to RMB2,500,000. Our maintenance services mainly cover regular inspection of the deployed cables, repair and re-connection of optical fibers and testing of the signal transmission.

Sales of goods

We sell certain ancillary products including micro-ducts and spare parts to clients and anti-corrosive steel wires to local telecommunication operators. We outsource the manufacturing process of micro-ducts to manufacturers by providing them with steel wires and coating materials of our own recipe for their reprocessing of steel wires into anti-corrosive steel wires.

The income from sales of goods was approximately RMB990,000 and RMB2,599,000 for the year ended 31 December 2012 and 2011 respectively.

The decrease in sales of goods for the year ended 31 December 2012 as compared to the same period in 2011 was mainly due to the decrease 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 for their deployment of telecommunication networks therein, both amounted to approximately RMB65,000 for the year ended 31 December 2012 and 2011 respectively. There was no change in rental income for the year ended 31 December 2012 as compared to the same period in 2011 as there was no change in underground area leased out to our clients.

Low-voltage equipment integration services

The income from low-voltage equipment integration services, representing the income generated from the provision of integration services for low-voltage equipments and accessories to our clients which includes financial institutions, governmental departments, public facilities, road and transportation companies, and state-owned and private companies was approximately RMB71,662,000, representing approximately 29.1% of our total revenue for the year ended 31 December 2012. In the fourth quarter of the year ended 31 December 2012, the Group has completed a governmental related project and a highway monitoring system project with contact sum totally amounted to RMB53,000,000, thus the revenue increased accordingly.

Cost of sales

The Group's cost of sales for the year of 2012 was approximately RMB137,079,000, representing an increase of approximately 58.1% over the corresponding period of the previous year. The increase in the Group's cost of sales was due to increase of construction revenue of deployment services of optical fiber and low-voltage equipment integration services. The following tables summarized the details of cost of sales:

	2011		**2012**	
	RMB'000	%	**RMB'000**	**%**
Labour costs	48,758	56.2	**65,881**	**48.1**
Material costs	32,821	37.9	**54,692**	**39.9**
Others	5,113	5.9	**16,506**	**12.0**
	86,692	100.0	**137,079**	**100.0**

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2012 was approximately RMB109,289,000, representing an increase of approximately 45.6% over the corresponding period of the previous year. Gross profit margin decreased by approximately 2.0% to 44.4% from 46.4%, due to great increase in service income from low-voltage equipment integration services of which the gross profit margin is comparatively lower and slight decrease in gross profit margin of construction contracts of deployment services of optical fibers.

The gross profit margin of construction contracts of deployment services of optical fibers using traditional deployment methods decreased from 44.2% in the year ended 31 December 2011 to 40.4% in the year ended 31 December 2012. There were new projects in Sichuan of which gross profit margin was 40% and gross profit margin of projects in Shijiazhuang of Hebei decrease as those projects were less complex than that of previous years.

The gross profit margin of construction contracts of deployment services of optical fibers using micro-ducts and mini-cables system integration methods decreased from 56.4% in the year ended 31 December 2011 to 53.1% in the year ended 31 December 2012. The decrease was primarily attributable to the fact that in last year, there were more complex projects with relatively higher gross profit margin in particular the projects in Chengde and Hengshui of Hebei Province as well as Shenyang of Liaoning Province. In year of 2012, these projects were comparatively less complex.

The gross profit margin of services income decrease from 55.2% in the year ended 31 December 2011 to 49.3% in the year ended 31 December 2012. Such decrease was mainly attributable to the increase in average cost of maintenance services during current period.

The gross profit margin of sales of goods increase from 33.4% in the year ended 31 December 2011 to 47.1% in the year ended 31 December 2012. Such increase was mainly attributable to the sales of ancillary products to our clients at relatively higher unit selling price during the period.

There was no change in the gross profit margin of rental income.

The gross profit margin of low voltage equipment integration services decreased slightly from 34.9% in year ended 31 December 2011 to 33.1% in the year ended 31 December 2012. Such decrease was mainly attributable to the higher cost of sales/services during the year.

Other income

Other income mainly included the interest income received by the Group.

Other gains and losses

Other gains and losses mainly included net foreign exchange gain or loss, gain on discharge of long outstanding payables, recovery of other receivables, fair value adjustment on initial recognition of other borrowings and gain on discharge of obligations under convertible loans. For the year ended 31 December 2011, there was a gain on discharge of obligations under convertible loans which amounted to approximately RMB6,352,000 and recovery of other receivables amounted to approximately RMB2,735,000 but there were no such gain in the year ended 31 December 2012. Thus, the total amount of other gains for the current period decreased substantially as compared to the previous corresponding period.

Listing expenses

Listing expenses represent expenses incurred for the purpose of placing of the Company's shares listed on GEM of the Stock Exchange on 12 June 2012.

Marketing and distribution expenses and administrative expenses

The Group's marketing and distribution expenses and administrative expenses for the year ended 31 December 2012 were approximately RMB23,041,000, representing an increase of approximately 64.4% from approximately RMB14,016,000 for the corresponding period of the previous year. The increase was mainly because of expansion of business of the Group. In addition, there was a non-cash equity-settled share-based expenditure (share option expenditure) amounted to RMB1,394,000 included in administrative expenses.

Finance cost

Finance cost included interest charged from bank and other borrowings. The finance cost increased mainly due to the fact that average principal sum of other borrowings was higher in the year ended 31 December 2012.

Income tax expenses

The income tax expenses increased greatly by RMB5,234,000 to RMB9,425,000 for the year ended 31 December 2012, which was increased by 124.9% when compared with that of year 2011. It was mainly due to the taxable profit of PRC subsidiaries increased greatly for the year ended 31 December 2012.

Net Profit

For the year ended 31 December 2012, the Group recorded a net profit attributable to equity holders of the Company of approximately RMB65,708,000 as compared to approximately RMB55,381,000 for the corresponding period of the previous year.

The net profit excluding Listing expenses, whole amount of non-recurrent other gains and losses, and non-cash equity-settled share-based expenditure (share option expenditure) amounted to RMB76,582,000 as compared to approximately RMB55,027,000 for the corresponding period of previous year, representing an increase of 39.2%.

Basic earnings per share and return on equity were decreased resulting from effect of increase of weighted average number of shares and share capital as the Company's shares were listed on the GEM of the Hong Kong Stock Exchange on 12 June 2012.

Trade and bill receivables and amount due from customers for contract works

There was an increase in trade and bills receivables as at 31 December 2012 of approximately RMB39,095,000 as compared to 31 December 2011 which was mainly due to the net effect of the settlement from customers and new trade and bills receivables provided during the year ended 31 December 2012. In addition, there was an increase in amount due form customers for contract works as at 31 December 2012 of approximately RMB76,265,000 as compared to 31 December 2011 which was mainly due to net effect of the settlement from customers and revenue arising from the year ended 31 December 2012. Such revenue generated had not been certified by the customers or underlying construction had not been completed as at 31 December 2012. Since approximately half of the revenue for year ended 31 December 2012 was arising from fourth quarter of year 2012 and the amount was approximately 70% higher than that over the corresponding period of year 2011, both trade and bill receivables and amount due from customers for contract works increased greatly accordingly. As at 28 February 2013, the customers settled trade receivable and amount due from customers for contract works amounted to RMB10,458,000 and RMB21,623,000 respectively, and in the sum of RMB32,081,000.

Liquidity and financial resources

As at 31 December 2012, the Group had current assets of approximately RMB246,381,000 (31 December 2011: RMB75,642,000) which comprised cash and cash equivalents in RMB130,300,000 as at 31 December 2012 (31 December 2011: RMB43,800,000). As at 31 December 2012, the Group had non-current liabilities amounted to approximately RMB4,113,000 (31 December 2011: RMB2,197,000), and its current liabilities amounted to approximately RMB147,168,000 (31 December 2011: RMB108,809,000), consisting mainly of payables, bank and other borrowings arising in the normal course of operation. Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 2.7 as at 31 December 2012 (31 December 2011: 1.7).

The Group had bank and other borrowings as at 31 December 2012 were RMB26,184,000 and RMB33,519,000 respectively and in the sum of RMB59,703,000. Such borrowings are repayable not exceeding 1 year. No financial instruments were used for hedging purposes, nor were there any foreign currency net investments hedged by current borrowings and/or other hedging instruments. The Group finances its operation primarily with the use of banking facilities, internally-generated cashflows, and maintains a net cash position to meet potential needs for business expansion and development.

Gearing ratio

The gearing ratio of the Group, calculated as total debt (including bank and other borrowings) over shareholders' fund, was approximately 19.8% as at 31 December 2012 (2011: approximately 5.2%).

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign exchange exposure

The Group's businesses are principally operated in China, accordingly virtually all of its transactions are conducted in RMB and major of the Group's assets and liabilities are also denominated in RMB. The Group is also subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB which is the functional currency of our Group.

For the year ended 31 December 2012, we had bank balances and cash, other payables and other borrowings which are denominated in foreign currencies and consequently we have foreign exchange risk exposure from conversion of amount denominated in foreign currencies as at the report date. During the twelve months ended 31 December 2012, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign currency risk.

Capital structure

The shares of the Company were listed on GEM of the Stock Exchange on 12 June 2012. There has been no change in the capital structure of the Company since that date. The capital of the Company comprises ordinary shares and capital reserves.

There was no interest capitalised by the Group during the year of 2012 (2011: Nil).

Capital commitments

As at 31 December 2012, the Group had capital commitments amounted to RMB1,600,000 (2011: RMB83,000).

Dividend

The Board does not recommend the payment of final dividend for the year ended 31 December 2012 (2011: Nil).

Information on employees

As at 31 December 2012, the Group had 248 employees (2011: 193), including the executive Directors. Total staff costs (including Directors' emoluments) were approximately RMB17,751,000, as compared to approximately RMB11,319,000 for the year ended 31 December 2011. The emoluments of the Directors for the year ended 31 December 2012 and 2011 amounted to RMB851,000 and RMB416,000 respectively. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund scheme in Hong Kong and various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local PRC Government as well as share options.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 27 May 2012 ("Share Option Scheme") where options to subscribe for shares may be granted to the Directors and employees of the Group.

Principal terms of the Share Option Scheme are disclosed in the section headed "Share Option Scheme" on pages 40 to 42 of this annual report.

Significant investments held

Except for investments in subsidiaries, during the year ended 31 December 2012, the Group did not hold any significant investment in equity interest in any other company.

Future plans for material investments and capital assets

Save as disclosed in the Company's Prospectus, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the year ended 31 December 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies, save as disclosed in the Company's Prospectus.

Charges of assets

As at 31 December 2012, the Group had pledged bank deposit amounted to approximately RMB20,271,000 (2011: Nil) and trade receivables amounted to RMB16,137,000 (2011: RMB6,195,000) to facilitate the bank borrowings.

Contingent liabilities

Save as disclosed herein, the Group had no contingent liabilities as at 31 December 2012 (2011: Nil).

Capital expenditure

The Group planned to spend capital expenditure for the year ending 31 December 2013, 2014 and 2015 amounted to RMB45 million, RMB4 million and RMB25 million respectively. The following table summarized the details:

Year	Investment in equipment (RMB million)	Securing strategic assets or rights (RMB million)	Acquisition (RMB million)	Total (RMB million)	Sources of fund
2013	17	18	10	45	IPO proceed
2014	4	—	—	4	IPO proceed
2015	5	10	10	25	Internal working capital or bank available facilities
Total	26	28	20	74	

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of the business. The following table sets forth information regarding members of the Board as at the date of this report:

Name	Appointment Date	Age
Executive Directors		
Jiang Changqing (姜長青) (Chairman)	31 March 2011	47
Guo Aru (郭阿茹)	31 March 2011	47
Li Qingli (李慶利)	31 March 2011	44
Independent Non-executive Directors		
Meng Fanlin (孟繁林)	27 May 2012	68
Wang Haiyu (王海玉)	27 May 2012	60
Li Xiaohui (李曉慧)	27 May 2012	45

Chairman & Executive Director

Mr. Jiang Changqing (姜長青), aged 47, is our founder, chairman, and was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012. He joined Hebei Changtong as a director since its incorporation in June 2000 and joined Beijing U-Ton in July 2010 when he was firstly appointed as the manager, and has been appointed as the director of Beijing U-Ton since April 2011 and has been primarily responsible for overall corporate strategies, planning, management and business development of our Group. Mr. Jiang was a director of Hebei Deer between April 2005 and October 2010 and a director of Partnerfield since December 2010. Mr. Jiang has approximately 20 years' working experience in the telecommunications industry specialising in optical fiber deployment technology and has over five years' experience in in-sewer deployment methods such as in-sewer, pipe jacking and cable troughing which utilise miro-ducts, mini-cables and related techniques. Prior to the establishment of our Group, Mr. Jiang worked at Hengshui Technology Intelligence Office (衡水科技情報所) from March 1998 to June 2000 responsible for the management of the operation. Mr. Jiang worked in a department of People's Liberation Army of the PRC from October 1981 to June 1993 and was mainly responsible for coaching telecommunication equipment maintence and construction. Mr. Jiang obtained a diploma in law through self-studying from the Hebei University (河北大學) in June 1996.

Executive Directors

Ms. Guo Aru (郭阿茹), aged 47, is the spouse of Mr. Jiang. Ms. Guo was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is primarily responsible for the research and development of new equipment and technology for our Group. Ms. Guo joined our Group as a manager in 2007. Ms. Guo was a director of Beijing U-Ton between July 2010 and April 2011 and a director of Partnerfield since December 2010. From July 1986 to September 2006, Ms. Guo worked as a mathematics teacher in No. 4 and No. 7 Middle School of Hengshui City in Hebei Province. Ms. Guo is certified as a senior communications engineer (通信高級工程師) by Gansu Province Title Reform Organisation (甘肅省職稱改革工作小組) in November 2008. Ms. Guo obtained a diploma in mathematics from the Hengshui University (衡水學院) in July 1986. Through self-studying and with the support of Mr. Jiang, Ms. Guo has invented several connectors for the purposes of protecting optical fibers, of which seven were granted patents in the PRC and are being transferred to our Group (please see the section headed "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix IV to the Prospectus for further details about such patents).

Mr. Li Qingli (李慶利), aged 44, was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is mainly responsible for the management of the low-voltage equipment integration services of our Group. Mr. Li has been a director of Shijiazhuang Qiushi responsible for its daily operations and management since its incorporation in March 1999. Mr. Li has been a director of Hebei Deer since its incorpration in October 2003 and a director of Partnerfield since September 2005. Mr. Li worked at Shijiazhuang Changan Xunbo Telecommunication Equipment Operation Office (石家莊市長安迅波通信器材經營處) from March 1994 to March 1999. Mr. Li worked as an external welfare officer at Plant 4511 (4511廠) from September 1991 to March 1994. Mr. Li obtained a diploma in wireless construction from the Guilin University of Electronic Technology (桂林電子科技大學) (formerly known as Guilin Institute of Electronic Technology (桂林電子工業學院)) in June 1991. Mr. Li obtained a Qualification Certificate of Junior Professional Rank (初級專業技術職務任職) from The Title Reform Leading Group Office of Shijiazhuang (石家莊職稱改革領導小組辦公室) in December 1994 qualifying him as an assistant engineer specialising in electrons.

Independent Non-executive Directors

Mr. Meng Fanlin (孟繁林), aged 68, was appointed as our independent non-executive Director on 27 May 2012. Prior to joining our Group, Mr. Meng worked for China Mobile Communications Corporation's Hebei branch Qinhuangdao office (河北移動通信秦皇島分公司) as a senior consultant from December 2003 to January 2005 and as a general manager from July 1999 to December 2003. Mr. Meng had also worked for China Telecom Group's Langfang city telecommunication office (中國電信廊坊市電信局) as the director from November 1998 to July 1999. Mr. Meng had worked for Post and Telecommunication Administration of Hebei Qinhuangdao (秦皇島市郵電局) as vice head and acting head from September 1983 to October 1998 primarily responsible for production management, and as the head of the telecommunication department from October 1980 to February 1983 and was a technician from July 1966 to September 1980. Mr. Meng obtained a bachelor's degree in local telecommunications (市內電話通信) from Jilin University (吉林大學) (formerly known as Changchun Post and Telecommunication Institute (長春郵電學院)) in July 1966.

Mr. Wang Haiyu (王海玉), aged 60, was appointed as our independent non-executive Director on 27 May 2012. Mr. Wang is a registered qualification certificate constructor (中華人民共和國一級建造師) by Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) with profession in signal communication, a senior engineer (高級工程師) and telecommunication and national bid evaluation expert (通信建設評標專家) by the Ministry of Information Industry. Mr. Wang had worked for Fifth Construction Bureau of China International Telecommunication Construction Corporation ("CITCC") (中國通信建設集團有限公司第五工程局) which does not have any current or prior relationship with our Group, as the bureau's chief from November 2007 to March 2011. Mr. Wang had also worked as a general manager of the engineering department of CITCC from February 2006 to November 2007 and as the head of the engineering and marketing department of CITCC from September 2001 to February 2006. Mr. Wang had also worked for Second Construction Bureau of CITCC (中國通信建設集團有限公司第二工程局) as a senior engineer, department head and assistant of bureau chief from February 1978 to December 2000. Mr. Wang received his bachelor's degree in telecommunications from the Nanjing University of Posts and Telecommunications (南京郵電大學) in 1978. Mr. Wang is currently working for the Fifth Construction Bureau of CITCC as a senior consultant. As confirmed by Mr. Wang and the said company the position is an honorary role and Mr. Wang is not engaging in any daily business operation activities or decision making in CITCC.

Ms. Li Xiaohui (李曉慧), aged 45, was appointed as our independent non-executive Director on 27 May 2012. Ms. Li is a Certified Public Accountant in China and is a non-practising member of the Chinese Institute of Certified Public Accountants. Ms. Li has been a lecturer since 2004 and the vice dean since July 2006 of the department of accountancy of the Central University of Finance and Economics (中央財經大學). Ms. Li had worked for the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) from July 2001 to August 2003 with the responsibilities of researching and formulating independent auditing principles. From 1999 to 2004, Ms. Li wrote books and other publications in relation to auditing, accounting and risk management. Ms. Li had also worked for the Hebei Province Finance Department (河北省財政廳) from January 1997 to August 1998. Ms. Li had worked at Canshi Certified Public Accountants (滄獅會計師事務所) as a partner from August 1996 to January 1997 and Canzhou Certified Public Accountants (滄洲會計師事務所) as an external affairs manager from April 1993 to July 1996. Ms. Li is a member of the Technical Consultation Committee (技術指導委員會) of the Chinese Institute of Certified Public Accountants, the Professional Supervision Committee (監督專業委員會) of the Accounting Society of China (中國會計學會), the CERM (China) Committee of the Asia Association of Risk and Crisis Management ("AARCM") (亞洲風險與危機管理協會), a certified senior enterprise risk manager by AARCM, and the Practice Guidance Committee (執業指導委員會) of the Beijing Institute of Certified Public Accountants (北京註冊會計師協會). Ms. Li obtained her bachelor's degree in economics from Yangzhou University (揚州大學) (formerly known as Yangzhou Normal Institute (揚州師範學院)) in June 1989. Ms. Li obtained her master's degree in economics from Renmin University of China (中國人民大學) in January 1993. Ms. Li was awarded the degree of Doctor of Economy by the Central University of Finance and Economics (中央財經大學) in July 2001. As at the Latest Practicable Date, Ms. Li is an independent non-executive director of China Titans Energy Technology Group Co., Limited, a company listed on the Stock Exchange (stock code: 2188), an independent director of Beijing Orient National Communication Science Technology Co., Limited, a company listed on Shenzhen Stock Exchange (stock code: 300166), independent director of Jiangsu Welle Environmental Co., Limited, a company listed on Shenzhen Stock Exchange (stock code: 300190), independent director of Kailuan Energy Chemical Co., Limited, a company listed on Shanghai Stock Exchange (stock code: 600997).

Senior Management

Mr. Pang Chun Kit (彭俊傑), aged 40, was appointed as our chief financial officer on 1 May 2011 and company secretary on 27 May 2012 and is primarily responsible for the financial management, merger & acquisition and company secretarial work of our Group. Mr. Pang is a member of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) and Association of Chartered Certified Accountants. Mr. Pang had worked for China Grand Forestry Green Resources Group Limited, a company listed on the Stock Exchange (stock code: 0910), as its chief financial officer from February 2007 to December 2010, company secretary from September 2010 to December 2010, and executive director from January 2009 to August 2011. Mr. Pang had also worked for Lingbao Gold Company Ltd, a company listed on the Stock Exchange (stock code: 3330) as a chief financial officer, qualified accountant and joint company secretary from June 2005 to March 2007. Mr. Pang had also worked for Deloitte Touche Tohmatsu and Lawrence T. Lau and Company as an auditor from September 1997 to June 2005. Mr. Pang was a former audit manager of Deloitte Touche Tohmatsu. Mr. Pang received his bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 1997.

Mr. Wang Yongtian (王永田), aged 32, was appointed as general manager of our Group on 10 October 2012 and is primary responsible for merger and acquisition as well as investor relationship management. Mr. Wang was an assistant vice president of investment banking department of ICBC International Capital Limited between July 2009 and October 2012. Mr. Wang had also worked for ICEA Capital Limited between July 2008 and July 2009. Mr. Wang had also worked for asset management department of AIG between November 2007 and June 2008. Mr. Wang received his Ph.D Financial Mathematics from Swansea University in 2008, MSc Mathematics and Computing for Finance from University of Swansea in 2005 and BSc Information and Computing Science from Hebei University in 2003.

Mr. Dong Baoyi (董寶義), aged 64, was appointed as our technical director in November 2006 and was promoted as our chief technical officer in March 2011 and is mainly responsible for technology development and management of our Group. Mr. Dong worked for China Netcom's Tangshan branch as an assistant manager from March 2005 to November 2006 and was primarily responsible for management assistance. Mr. Dong had worked for the Post and Telecommunication Administration of Tangshang city (唐山市郵電局) as a vice department head of long-distance machinery department (長遠機械科), vice manager and manager of telecommunication department from April 1981 to March 2005 and was primarily responsible for telecommunication equipment management and monitoring of its maintenance and repair. Mr. Dong worked for the local telecommunication bureau in Xingyi City, Guizhou Province, as a technician from December 1968 to March 1981 and was primarily responsible for telecommunication equipment maintenance and repair. Mr. Dong obtained a diploma in telecommunication enterprise and power source facilities (電信企業動力和電源設備) from Shijiazhuang Post and Telecommunication School (石家莊郵電學校) in July 1968 and obtained a diploma in economic management (經濟管理) through distance learning from the Hebei Provincial Committee Party School of Correspondence Education (河北省委黨校函授學院) in July 2005.

Our executive Directors and senior management are responsible for the day-to-day management of our business. The following table sets out certain information concerning our senior management as at the date of this report:

Name	Age	Positions within the Company
Pang Chun Kit (彭俊傑)	40	Chief Financial Officer and Company Secretary of the Group
Wang Yongtian (王永田)	32	General Manager of the Group
Dong Baoyi (董寶義)	64	Chief Technical Officer of the Group

Company Secretary

Mr. Pang Chun Kit (彭俊傑) has been the company secretary of our Company since 27 May 2012. His biographical details are set out in the section "Directors and Senior Management Profile" on pages 22 to 26 in this annual report.

Corporate Governance Practices

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The board of directors of the Company (the "Board") believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

From the Listing Date and up to 31 December 2012, the Company had complied with the code provisions ("Code Provisions") set out in the Corporate Governance Code contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), except code provision A.1.8 and A.2.1 as more particularly described below.

Code provision A.1.8 provides that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. From the Listing date and up to 31 December 2012, the Company and the Directors have taken sufficient measures to avoid any mistakes of a director and to minimize the risk of claim against the directors and therefore no insurance cover has been arranged. In January 2013, the Board had arranged insurance cover in respect of legal action against the directors and senior management.

A.2.1 provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Board considers that the Company is still in its growing stage and it would be beneficial to the Group for Mr. Jiang to assume both roles as the chief executive officer and chairman of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles to be assumed by two individuals. With the strong business experience of the Directors, they do not expect any issues would arise due to the combined role of Mr. Jiang. The Group also has in place an internal control system to perform the check and balance function. There are also three independent non-executive Directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place to enable the Company to make and implement decisions promptly and effectively.

Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors from the Listing Date and up to 31 December 2012.

The Board of Directors

Composition

The Board currently comprises six Directors, of which three are executive Directors, and three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:
Jiang Changqing (姜長青) (Chairman)
Guo Aru (郭阿茹)
Li Qingli (李慶利)

Independent Non-executive Directors:
Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)
Li Xiaohui (李曉慧)

From the Listing Date and up to 31 December 2012, there was no change in the composition of the Board.

The biographical details of each Director are set out in the section "Directors and Senior Management Profile" on pages 22 to 26 in this annual report.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. From the Listing Date and up to 31 December 2012, 2 Board meetings were held and the attendance records of individual Directors are set out below:

	Number of Meetings Attended/Held
Executive Directors	
Jiang Changqing (姜長青) (Chairman)	2/2
Guo Aru (郭阿茹)	2/2
Li Qingli (李慶利)	2/2
Independent Non-executive Directors	
Meng Fanlin (孟繁林)	2/2
Wang Haiyu (王海玉)	2/2
Li Xiaohui (李曉慧)	2/2

There are 3 independent non-executive Directors and it represents more than one third of the Board, and all of them have appropriate professional qualifications.

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

General Meetings

From the Listing Date and up to 31 December 2012, no general meeting was held.

Responsibilities of the Board and Management

The Board primarily oversees and manages the Company's affairs, including the responsibilities for the adoption of long-term strategies and appointment and supervision of senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The Board is also responsible for determining the Company's corporate governance policies which include: (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (iv) to review the Company's disclosure in the Corporate Governance Report. During the year ended 31 December 2012, the Board had appointed an internal auditor to, amongst others, conduct a review on existing corporate governance policies and raise recommendation to improve the corporate governance.

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). With the new composition of members of the nomination committee, remuneration committee and audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective Board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been given as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The financial statements set out on pages 48 to 106 were prepared on the basis set out in note 3 to the Consolidated Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditors of the Company on the Company's financial statements is set out in the Independent Auditors' Report on page 47.

Having made reasonable enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

There is no non-compliance with rules 5.05(1), (2) and 5.05A of the GEM Listing Rules. Except as disclosed in the section "Directors and Senior Management Profile" above, there is no financial, business family or other material relationship among members of the Board.

Confirmation of Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company, on the basis of the aforesaid annual confirmations, is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Continuous Professional Development

For the year ended 31 December 2012, all Directors namely Mr. Jiang Changqing, Ms. Guo Aru, Mr. Li Qingli, Mr Meng Fanlin, Mr. Wang Haiyu and Ms. Li Xiaohui have been given relevant guideline materials and physically attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Particulars of which are as follows:

Directors	Type of trainings
Executive Directors	
Jiang Changqing	A,B
Guo Aru	A,B
Li Qingli	A,B
Independent Non-Executive Directors	
Meng Fanlin	A,B
Wang Haiyu	A,B
Li Xiaohui	A,B

A: attending seminars and/or conferences

B: reading materials relevant to the business of the Group or to the Director's duties and responsibilities

Such induction materials and briefings will also be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary.

All Directors have provided record of training attendance and the Company will continue to arrange and/or fund the training in accordance with paragraph A.6.5 of the Code Provisions.

Appointment, Re-election and Removal

All independent non-executive Directors have entered into letters of appointment with the Company for a specific term of three years, subject to re-election.

In accordance with the articles of association of the Company, at each annual general meeting ("AGM") one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the name of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by It. Such retiring Directors may, being eligible, offer themselves for re-election at the same AGM. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

Nomination Committee

The Company established a nomination committee pursuant to a resolution of the Directors passed on 27 May 2012 with written terms of reference in compliance with paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the nomination committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to access the independence of independent non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The nomination committee comprises three independent non-executive Directors, namely Mr. Meng Fanlin (Chairman), Ms. Li Xiaohui and Mr. Wang Haiyu.

During the period from the Listing Date to 31 December 2012, no nomination committee meeting was held during this period as the Company has not appointed any new director.

When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 5.01 and 5.02 of the GEM Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 5.09 of the GEM Listing Rules. Qualified candidates will then be recommended to the Board for approval.

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 27 May 2012 with written terms of reference in compliance with Rule 5.34 and Rule 5.35 of the GEM Listing Rules. The written terms of reference of the remuneration committee was adopted in compliance with paragraph B1.2. of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and to ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration of the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at 31 December 2012, the remuneration committee consists of three independent non-executive Directors namely Mr. Wang Haiyu (Chairman), Ms. Li Xiaohui and Mr. Meng Fanlin.

Details of remuneration of Directors are set out in Note 12 to the consolidated financial statements.

During the period from the Listing date to 31 December 2012, no remuneration committee meeting was held during this period.

During the year, the remuneration committee reviewed and approved the remuneration packages of, and the grant of share options under the Company's share option scheme to, the Directors and senior management of the Company. On 14 August 2012, the Company granted a total of 6,720,000 share options at an exercise price of HK$0.65.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

In the band of	**Number of individuals**
Nil to HK$1,000,000	2
HK$2,500,000 to HK$3,000,000	1

Audit Committee

The Company established an audit committee pursuant to a resolution of the Director passed on 27 May 2012 with written terms of reference in compliance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 and C3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the audit committee are, among other things, to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and to render material advice in respect of financial reporting and overseas internal control procedures of the Company. As at 31 December 2012, the audit committee consists of three independent non-executive Directors, namely Ms. Li Xiaohui (Chairlady), Mr. Wang Haiyu and Mr. Meng Fanlin.

The audit committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls.

During the year, the audit committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The audit committee also met with the external auditors and reviewed the annual, interim and quarterly reports of the Company.

From the Listing Date and up to 31 December 2012, two audit committee meetings were held and the attendance records of individual committee members are set out below:

	Number of Meetings Attended/Held
Li Xiaohui (Chairman)	2/2
Wang Haiyu	2/2
Meng Fanlin	2/2

Our Group's annual results for the year ended 31 December 2012 have been reviewed by the audit committee. The audit committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2012 comply with applicable accounting standards, GEM Listing Rules and the legal requirements, and that adequate disclosures have been made.

During the period from the Listing Date to 31 December 2012, the board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

Auditor's Remuneration

During the year, the Company engaged Messrs. Deloitte Touche Tohmatsu as the external auditors. Apart from providing audit services, Deloitte Touche Tohmatsu also provided audit services in connection with the Group's Listing and non-audit service in connection with the interim reivew. The fees in respect of annual audit for the year ended 31 December 2012, audit related to Group's Listing and non-audit services provided by Deloitte Touche Tohmatsu for the year ended 31 December 2012 approximately amounted to RMB932,000, RMB1,987,000 and RMB408,000, respectively.

As at 31 December 2012, the fees paid and payable to the Group's auditors in respect of their audit and non-audit services provided to the Group were as follows:

	Amount (RMB)
Types of services	
Audit services	2,919,000
Non-audit services	408,000
Total	3,327,000

The reporting responsibilities of Deloitte Touche Tohmatsu are set out in the Independent Auditors' Report on page 47.

Company Secretary

Mr. Pang Chun Kit, being our company secretary, is primarily responsible for the company secretarial work of our Group. Mr. Pang is also our company's chief financial officer. The Company confirms that Mr. Pang has for the year in 2012 attended no less than 15 hours of relevant professional training.

Internal Controls

The Board is responsible for maintaining a sound and effective internal control system in order to safeguard the interests of the shareholders and the assets of the Company against unauthorized use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The Board has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2012 by an external internal control auditor and will continue to assess the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and external internal control auditor every year.

Shareholders' Rights

The following procedures for shareholders of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with the Articles of Association as follows:

(1) One or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings, shall have the right, by written notice, to require an EGM to be called by the Directors of the Company for the transaction of any business specified in such requisition.

(2) Such requisition shall be made in writing to the Board or the company secretary of the Company at the following addresses:

Principal place of business of the Company in Hong Kong

Address:	Room 2201-03, 22/F, World Wide House, 19 Des Voeux Road Central, Central, Hong Kong
Email:	ir@chinauton.com
Attention:	Mr. Pang Chun Kit

Registered office of the Company

Address:	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Attention:	Mr. Pang Chun Kit

(3) The EGM shall be held within two months after the deposit of such requisition.

(4) If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The requisition will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the requisition is proper and in order, the Board will be asked to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the shareholders.

The notice period to be given to all the shareholders in respect of the EGM varies according to the nature of the resolutions as follows:

(1) At least 14 days' notice in writing if no special resolution is to be considered at the EGM.

(2) At least 21 days' notice in writing if a special resolution is to be considered at the EGM.

For matters in relation to the Board, the shareholders can contact the Company at the following:

Address:	Room 2201-03, 22/F, World Wide House, 19 Des Voeux Road Central, Central, Hong Kong
Email:	ir@chinauton.com
Tel:	3528 0453
Fax:	3741 0355
Attention:	Mr. Pang Chun Kit

Investor Relations and Communication

The Board recognizes the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the year ended 31 December 2012 has been provided in this Annual Report. While the AGM provides a valuable forum for direct communication between the Board and its shareholders, the Company also maintains its website (www.chinauton.com) to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

From the Listing Date and up to 31 December 2012, there has been no significant change in the Company's constitutional documents.

Hong Kong, 25 March 2013

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their first annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 (the "Consolidated Financial Statements") since the listing of the shares of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Listing") on 12 June 2012 (the "GEM Listing Date").

Principal Activities

The principal activity of the Company is investment holding and those of the principal subsidiaries of the Company are set out in note 38 to the Consolidated Financial Statements.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2012 are set out in Note 38 of the Consolidated Financial Statements.

Comparison between Future Plans and Prospects and Actual Business Progress and Use of Proceeds

Comparison of Future Plans with the Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the period ended 31 December 2012 (the "Period"). Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the content requires otherwise.

Business plan up to 31 December 2012 as set out in the Prospectus	**Actual business progress up to 31 December 2012**
1. Further strengthening our deployment services of optical fibers in the PRC	
(i) Investment in equipment	The Group has purchased various equipments, spare parts of equipments and motor vehicles for construction projects.
(ii) Market expansion	The Group has built two experimental sections. In addition, the Group is looking for a suitable location to establish one representative office.
(iii) Securing strategic assets/rights	The Group has started to communicate with relevant governmental departments in various cities of the PRC.
(iv) Acquisition	The Group has commenced research.
(v) Human resources	The Group has employed additional technical staffs and provided relevant training to new and existing staffs.
(vi) Research and development	The Group has continued to conduct research and development on technology related to micro-ducts and mini-cables system integration methods, especially apply in sewer system.

2. Expanding our business of low-voltage equipment integration services in the PRC	
(i) Sales and marketing	The Group has employed additional staffs to strengthen sales and marketing network. In addition, the Group is conducting research on appropriate sales and marketing activities to promote reputation.

As of the date of this report, the Directors had no intention to make any changes to the business plan.

Use of Proceeds

The net proceeds from the Placing were approximately HK$108.7 million (equivalent to approximately RMB88.7 million). The net proceeds from the Listing Date to 31 December 2012 had been applied as follows:

	Use of proceeds from the Listing Date to period ended 31 December 2012 as shown in the Prospectus HK$ (million)	Actual use of proceeds from the Listing Date to 31 December 2012 HK$ (million)
1. Further strengthening our deployment services of optical fibers in the PRC		
(i) Investment in equipment	9.52	—
(ii) Market expansion	5.31	—
(iii) Securing strategic assets/rights	6.10	—
(iv) Acquisition	12.20	—
(v) Human resources	1.00	—
(vi) Research and development	1.30	—
Sub-total	35.43	—
2. Expanding our business of low-voltage equipment integration services in the PRC		
(i) Sales and marketing	1.20	—
3. Repayment of bank and other borrowings	14.30	11.6
4. General working capital (Note)	8.4	7.6
Total	59.33	19.2

Note: The amount of general working capital had been reduced from HK$11.1 million to HK$8.4 million to reflect the difference between the estimated amount of net proceeds shown in the Prospectus of HK$111.4 million and the final net proceeds of HK$108.7 million.

As disclosed in Comparison of Future plans with Actual Business Progress, except Repayment of bank and other borrowings and general working capital, all such business activities were paid by internal fund. The planned use of proceed expected would be used in year 2013. In order to minimise the exchange rate risk, the Group translated Principal amount of HK$50 million to RMB currency from September 2012 and the fund is deposited in a commercial bank in Hong Kong.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Group as at 31 December 2012 are set out in the Consolidated Financial Statements on pages 48 to 106.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2012 (2011: Nil).

Three Years Financial Summary

A summary of the results and assets and liabilities of the Group for the last three financial years is set out on page 6. This summary does not form part of the Consolidated Financial Statements.

Share Capital

Details of movements in share capital of the Company during the year are set out in note 27 to the Consolidated Financial Statements.

Reserves

Details of movements in reserves of the Group and the Company during the Period are set out in the consolidated statement of changes in equity and in note 35 to the Consolidated Financial Statements respectively.

Distributable Reserves

As at 31 December 2012, the Company did not have reserve available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company was incorporated in the Cayman Islands on 7 March 2011. As at 31 December 2012, the Company had accumulated loss of RMB5,489,000.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 81.9% of the total sales for the Period and sales to the largest customer included therein amounted to approximately 50.3%. Purchases from the Group's five largest suppliers accounted for approximately 35.1% of the total purchases for the Period and purchases from the largest supplier included therein amounted to approximately 9.5%.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the Period.

Property, Plant and Equipment

Details of movements in property, plant and equipment during the Period are set out in note 15 to the Consolidated Financial Statements.

Borrowings

Particulars of borrowings of the Group as at the balance sheet date are set out in note 24 to the Consolidated Financial Statements. As at 31 December 2012, the Group pledged deposit and trade receivables amounted to RMB20,271,000 and RMB16,137,000 respectively (2011: trade receivables of RMB6,195,000).

Interests of the Compliance Adviser

As notified by Guotai Junan Capital Limited, the compliance adviser of the Company, neither Guotai Junan Capital Limited nor its directors or employees or associates had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31 December 2012.

Pursuant to the agreement dated 7 June 2012 entered into between Guotai Junan Capital Limited and the Company, Guotai Junan Capital Limited received and will receive fees for acting as the compliance adviser of the Company.

Directors and Directors' Service Contracts

The Directors of the Company who hold office during the year and up to the date of this report are:

Executive Directors

Jiang Changqing (Chairman)	(appointed on 31 March 2011)
Guo Aru	(appointed on 31 March 2011)
Li Qingli	(appointed on 31 March 2011)

Independent Non-executive Directors

Meng Fanlin	(appointed on 27 May 2012)
Wang Haiyu	(appointed on 27 May 2012)
Li Xiaohui	(appointed on 27 May 2012)

Each of the executive Directors has entered into a service contract with the Company for a term of three years and shall continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years, subject to retirement by rotation and re-election at annual general meeting and until terminated by not less than three months' notice in writing served by either party on the other.

No Director has a service contract which is not determinable by the Company or any of its subsidiaries within 1 year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and all of them are considered to be independent.

In accordance with the Company's Articles of Association, one third of the existing executive Directors and all the independent non-executive Directors shall retire from office, at the forthcoming annual general meeting.

Directors' Interests in Contracts

Save as aforesaid, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Contract of Significance

Save as disclosed, there was no contract of significance between the Company or any of its subsidiaries, and a controlling shareholder of the Company or any of its subsidiaries.

Biographies of Directors and Senior Management

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Directors and Senior Management Profile" on pages 22 to 26 of this annual report.

Connected Transactions

The Company had not entered into any connected transaction during the year, which is required to be disclosed under the GEM Listing Rules. Related party transactions entered into by the Group during the year ended 31 December 2012 are disclosed in Note 31 to the Consolidated Financial Statements. The related party transactions set out in Note 31 to the Consolidated Financial Statements did not constitute connected transactions under the GEM Listing Rules.

Share Option Scheme

The Company's existing Share Option Scheme was approved for adoption pursuant to the written resolutions of all of our Shareholders passed on 27 May 2012 for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board shall approve from time to time.

Subject to the terms of the Share Option Scheme, the board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries, (b) any person who have contributed or may contribute to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 12 June 2012 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed “Share Option Scheme” in section headed “Statutory and General Information” in Appendix IV to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 27 May 2012 and remains in force until 26 May 2022. The Company may, by resolution in general meeting or at such date as the Board determined, terminate the Share Option Scheme without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option (“Date of Grant”) which must be a trading day;

(2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and

(3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 168,000,000 shares, which represents 10% of the shares in issue of the Company as at the date of this report.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the GEM Listing Rules.

During the year, options to subscribe for 6,720,000 shares were granted under the Share Option Scheme. The exercise price per share for each option so granted is HK$0.65. No options were exercised, cancelled or lapsed during the year. As at 31 December 2012, the number of shares comprised in the outstanding options was 6,720,000.

Details of the movement of the Share Options during the year ended 31 December 2012 were as follows:

					Number of options				
Name or category of participant	**Date of grant**	**Option exercisable and vesting period**	**Exercise price HK$**	**Closing price as at date of grant**	**Oustanding as at 01/01/2012**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding as at 31/12/2012**
Employee	14/8/2012	15/8/2012 to 14/8/2022	0.65	0.65	0	6,720,000	0	0	6,720,000
Total	N/A	N/A	N/A	N/A	0	6,720,000	0	0	6,720,000

Additional particulars of the Company's Share Option Scheme are set out in note 28 to the Consolidated Financial Statements.

Apart from the aforesaid share option schemes, at no time during the year ended 31 December 2012 was any of the Company and its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such right.

Directors' and Chief Executives' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2012, so far as it is known to the Directors, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the Securities and Futures Ordinance (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules:

Name of Director	Name of Group member/associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Jiang Changqing (Note 2)	Our Company	Interest of a controlled corporation	1,008,000,000 Shares (L)	60%
	Bright Warm Limited	Beneficial owner	1 share (L)	100%
Guo Aru (Note 3)	Our Company	Family	1,008,000,000 Shares (L)	60%
	Bright Warm Limited	Family	1 share (L)	100%
Li Qingli (Note 4)	Our Company	Interest of a controlled corporation	252,000,000 Shares (L)	15%
	Ordillia Group Limited	Beneficial owner	1,000 shares (L)	100%

Notes:

1. The letter "L" denotes the Directors' long position in the Shares of our Company or the relevant associated corporation.

2. The Shares are held by Bright Warm Limited, the entire issued capital of which is beneficially owned by Jiang Changqing, one of the controlling shareholders of our Company and an executive Director.

3. Guo Aru is the spouse of Jiang Changqing. Therefore, Guo Aru is deemed to be interested in the 1,008,000,000 Shares owned by Jiang Changqing in the Company and 1 share owned by Jiang Changqing in Bright Warm Limited by virtue of the SFO.

4. The Shares are held by Ordillia Group Limited, the entire issued capital of which is beneficially owned by Li Qingli, one of the substantial shareholders of our Company and an executive Director.

5. Ren Yanping is the spouse of Li Qingli. Therefore, Ren Yanping is deemed to be interested in the 252,000,000 Shares owned by Li Qingli by virtue of the SFO.

Save as disclosed above, as at 31 December 2012, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the required standard of dealings by the directors to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests and/or Short Position in Shares and Underlying Shares of the Company

As at 31 December 2012, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	**Name of Group member**	**Capacity/nature of interest**	**Number and class of securities** (Note 1)	**Approximate percentage of shareholding**
Bright Warm Limited (Note 2)	Our Company	Beneficial owner	1,008,000,000 Shares (L)	60%
Ordillia Group Limited (Note 3)	Our Company	Beneficial owner	252,000,000 Shares (L)	15%
Ren Yanping (Note 4)	Our Company	Family	252,000,000 Shares (L)	15%

Notes:

1. The letter "L" denotes the person's long position in the shares of our Company or the relevant Group member.

2. Bright Warm Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Jiang, one of the controlling shareholders of our Company and an executive Director. Therefore, Jiang Changqing is also deemed to be interested in the 1,008,000,000 Shares owned by Bright Warm by virtue of the SFO.

3. Ordillia Group Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Li Qingli, one of the substantial shareholders of our Company and an executive Director. Therefore, Li Qingli is also deemed to be interested in the 252,000,000 Shares owned by Ordillia Group Limited by virtue of the SFO.

4. Ren Yanping is the spouse of Li Qingli. Therefore, Ren Yanping is deemed to be interested in the 252,000,000 Shares owned by Li Qingli by virtue of the SFO.

Save as disclosed above, as at 31 December 2012, the Directors were not aware of any other persons/entities (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Competition and Conflict of Interests

During the year, save as disclosed in the Prospectus, none of the Directors, the controlling shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, save as disclosed in the Prospectus, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's listed securities.

Events after the Reporting Period

There was no significant event affecting the Company and its subsidiaries which have occurred after the reporting period of the Group.

Pre-Emptive Rights

There is no provision for the pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules since the Listing Date up to the date of this annual report.

Corporate Governance Report

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 27 to 35 in this annual report.

Closure of the Register of Members

To determine the eligibility of the shareholders of the Company to attend the AGM to be held on 24 May 2013, the register of members will be closed from 22 May 2013 to 24 May 2013, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Investor Services Limited, 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 21 May 2013.

Annual General Meeting

The AGM will be held on 24 May 2013 the notice of which will be published and dispatched to the shareholders of the Company in the manner required by the GEM Listing Rules accordingly.

Auditors

A resolution to re-appoint the retiring auditors, Messrs. Deloitte Touche Tohmatsu, is to be proposed at the forthcoming annual general meeting of the Company. There was no change in auditors in the past 3 years.

By order of the Board

China U-Ton Holdings Limited
Jiang Changqing
Executive Director

Hong Kong, 25 March 2013

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA U-TON HOLIDNGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China U-Ton Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 106, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March 2013

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	5	**246,368**	161,734
Cost of sales/services		**(137,079)**	(86,692)
Gross profit		**109,289**	75,042
Other income	7	**622**	134
Other gains and losses	8	**931**	10,879
Marketing and distribution expenses		**(6,262)**	(3,245)
Administrative expenses		**(16,779)**	(10,771)
Listing expenses		**(10,411)**	(9,068)
Finance costs	9	**(2,257)**	(1,942)
Profit before taxation	10	**75,133**	61,029
Income tax expense	11	**(9,425)**	(4,191)
Profit and total comprehensive income for the year		**65,708**	56,838
Profit and total comprehensive income for the year attributable to:			
Equity holders of the Company		**65,708**	55,381
Non-controlling interests		**—**	1,457
		65,708	56,838
		RMB	RMB
Earnings per share	14		
Basic (cents)		**4.4**	4.5
Diluted (cents)		**4.4**	N/A

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	At 31 December 2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	15	**12,157**	6,451
Goodwill	16	**30,099**	30,099
Intangible assets	17	**93**	11
Trade receivables	19	**16,492**	—
Deferred tax assets	26	**106**	2,092
Deposits paid for acquisition of property, plant and equipment		**1,034**	71
		59,981	38,724
Current assets			
Inventories	18	**3,128**	2,846
Trade and bill receivables	19	**88,919**	66,316
Other receivables, deposits and prepayments	20	**10,912**	2,682
Amounts due from customers for contract work	21	**139,745**	63,480
Restricted bank deposits	22	**20,545**	5,327
Bank balances and cash	22	**130,300**	43,800
		393,549	184,451
Current liabilities			
Trade and other payables	23	**75,449**	61,269
Amounts due to related parties	31(b)	**1,900**	39,084
Bank and other borrowings	24	**59,703**	5,888
Provision	25	**112**	60
Income tax payables		**10,004**	2,508
		147,168	108,809
Net current assets		**246,381**	75,642
Total assets less current liabilities		**306,362**	114,366
Non-current liabilities			
Deferred tax liabilities	26	**4,113**	2,197
Net assets		**302,249**	112,169

	Notes	At 31 December 2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital/issued equity	27	**136,982**	—
Reserves		**165,267**	112,169
Equity attributable to equity holders of the Company		**302,249**	112,169
Non-controlling interests		**—**	—
Total equity		**302,249**	112,169

The consolidated financial statements on page 48 to 106 were approved and authorised for issue by the Board of Directors on 25 March 2013 are signed on its behalf by:

Jiang Changqing
DIRECTOR

Li Qingli
DIRECTOR

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to the holders of the Company							
	Issued equity RMB'000 (Note 27)	Capital reserves RMB'000	Share options reserves RMB'000 (Note 28)	Statutory surplus reserves RMB'000 (Note (f))	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011	20,000	(624)	—	3,069	11,573	34,018	1,244	35,262
Profit and total comprehensive income for the year	—	—	—	—	55,381	55,381	1,457	56,838
Acquisition of entity under common control (Note (a))	(10,000)	6,909	—	—	—	(3,091)	3,091	—
Distribution to equity participants (Note (a))	—	(10,000)	—	—	—	(10,000)	—	(10,000)
Acquisition of business (Note (b))	—	28,684	—	—	—	28,684	3,183	31,867
Acquisition of additional interest in a subsidiary (Note (c))	—	7,177	—	—	—	7,177	(8,975)	(1,798)
Arising from share swap for equity interest (Note (d))	(10,000)	10,000	—	—	—	—	—	—
Appropriations	—	—	—	6,278	(6,278)	—	—	—
Balance at 31 December 2011	—	42,146	—	9,347	60,676	112,169	—	112,169
Profit and total comprehensive income for the year	—	—	—	—	65,708	65,708	—	65,708
Capital contribution by equity participants (Note (e))	—	15,000	—	—	—	15,000	—	15,000
Issue of shares pursuant to the placing (Note 27)	34,199	82,077	—	—	—	116,276	—	116,276
Transaction costs attributable to issue of shares	—	(8,298)	—	—	—	(8,298)	—	(8,298)
Issue of shares to initial shareholders pursuant to the capitalisation issue (Note 27)	102,783	(102,783)	—	—	—	—	—	—
Recognition of equity-settled share-based payments (Note 28)	—	—	1,394	—	—	1,394	—	1,394
Appropriations	—	—	—	17,113	(17,113)	—	—	—
Balance at 31 December 2012	136,982	28,142	1,394	26,460	109,271	302,249	—	302,249

Notes:

(a) On 28 January 2011, 河北德爾城市網路科技有限公司 ("Hebei Deer"), a subsidiary of the Company, acquired the entire equity interest of 河北昌通通信工程有限公司 ("Hebei Changtong") from Mr. Jiang Changqing ("Mr. Jiang"), the chairman and director of the Company, for a cash consideration of RMB10,000,000. This cash consideration was considered as a distribution to the equity participant and debited to the capital reserves. Upon completion of the transfer of the equity interest of Hebei Changtong to Hebei Deer, there was a 10% non-controlling interest, amounting to RMB3,091,000, in Hebei Changtong at consolidation level. This is accounted for business combination under common control.

(b) On 1 March 2011, Hebei Deer acquired the entire equity interest of 石家莊求實通信設備有限公司 ("Shijiazhuang Qiushi") from Mr. Li Qingli ("Mr. Li"), who is a director of the Company, and his spouse for a combined consideration of cash of RMB9,669,000 and issued and allotted 5,626 shares of Partnerfield Investments Limited ("Partnerfield"), a subsidiary of the Company, to Mr. Li as part of the consideration (equivalent to 15.79% of Partnerfield's total equity interest). In accordance with the equity interest valuation report issued by independent valuers, the fair value of Partnerfield's total equity interest is RMB201,823,000 (See note 34).

(c) Pursuant to an equity transfer agreement dated 28 April 2011 entered into between Partnerfield and 河北瑞輝新型節能玻璃製品有限公司("Hebei Ruihui"), which is the non-controlling shareholder of Hebei Deer, Partnerfield acquired 10% equity interest in Hebei Deer from Hebei Ruihui at a consideration of RMB1,798,000 which was included in amount due to related parties as at 31 December 2011. On 25 May 2011, upon the completion of such equity transfer, Hebei Deer became the wholly-owned subsidiary of the Company. The difference of RMB7,177,000 between the consideration and the carrying amount of the non-controlling interest of RMB8,975,000 is credited to the capital reserves.

(d) On 11 May 2011, Mr. Jiang transferred the 80% equity interest in Partnerfield held by him to the Company in exchange for 720 shares of the Company issued as consideration. Mr. Li and Plansmart Investment Limited ("Plansmart") transferred the 15.79% and 4.21% equity interest in Partnerfield held by each of them to the Company, respectively in exchange for 180 shares of the Company issued as consideration in aggregate. Upon completion, the Company continued to be indirectly owned as to 80% and 20% by Mr. Jiang and Mr. Li, respectively.

(e) On 4 June 2012, the outstanding amounts due to Mr. Jiang and Ms. Guo Aru ("Ms. Guo"), the director of the Company, of approximately RMB20,000,000 were waived by such related parties and recognised as capital contribution from shareholders after netting off the tax impact of RMB5,000,000.

(f) In accordance with the Articles of Association of the Company's subsidiaries established in the People's Republic of China (the "PRC"), these entities are required to transfer 10% of the profit after taxation determined in accordance with the relevant regulations and the accounting principles generally accepted in the PRC ("PRC GAAP") to the statutory surplus reserve until the reserve reaches 50% of the registered capital of respective entities. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory surplus reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of these entities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Operating activities			
Profit before taxation		**75,133**	61,029
Adjustments for:			
Provision of warranty costs		**52**	35
Provision of employee injury		**10**	450
Recovery of other receivables		**—**	(2,735)
Depreciation of property, plant and equipment		**1,499**	1,005
Amortisation of intangible assets		**12**	1,534
Loss (gain) on disposal of property, plant and equipment		**592**	(6)
Gain on discharge of obligations under convertible loans		**—**	(6,352)
Fair value adjustment on initial recognition of other borrowings		**(1,826)**	(1,282)
Gain on sales of scrap material		**(23)**	—
Recognition of equity-settled share-based payments		**1,394**	—
Impairment loss on trade receivables		**—**	207
Gain on discharge of long outstanding payables		**—**	(486)
Interest income		**(622)**	(134)
Finance costs		**2,257**	1,942
Operating cash flows before movements in working capital		**78,478**	55,207
Movements in working capital:			
(Increase) decrease in inventories		**(259)**	6,672
Increase in trade and bill receivables		**(39,095)**	(46,238)
(Increase) decrease in other receivables, deposits and prepayments		**(8,230)**	4,773
Increase in amounts due from customers for contract work		**(76,265)**	(46,624)
Increase in trade and other payables		**17,819**	36,089
Cash (used in) generated from operations		**(27,552)**	9,879
Income tax paid		**(3,027)**	(1,784)
Net cash (used in) from operating activities		**(30,579)**	8,095

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Investing activities			
Interest received		**622**	134
Payment for property, plant and equipment		**(7,824)**	(1,902)
Payment of intangible assets		**(94)**	(14)
Deposits paid for acquisition of property, plant and equipment		**(1,010)**	(71)
Proceeds from disposal of property, plant and equipment		**74**	73
Net cash inflow on acquisition of subsidiaries	34	**—**	984
Advances to related parties		**—**	(3,927)
Advances to independent third party		**(3,649)**	—
Repayments from related parties		**—**	9,993
Placement of restricted bank deposits		**(20,270)**	(5,327)
Withdrawal of restricted bank deposits		**5,052**	601
Net cash (used in) from investing activities		**(27,099)**	544
Financing activities			
Interest paid		**(913)**	(660)
Issue of shares		**116,276**	—
Transaction costs for issue of shares		**(8,298)**	—
Capital injection by equity participants		**—**	37
Proceeds from new bank loans and other borrowings raised		**118,975**	35,433
Repayments of bank loans and other borrowings		**(64,678)**	(47,872)
Repayments to related parties		**(25,984)**	(10,932)
Advances from related parties		**8,800**	31,933
Distribution to equity participants		**—**	(20,000)
Net cash generated from (used in) financing activities		**144,178**	(12,061)
Net increase (decrease) in cash and cash equivalents		**86,500**	(3,422)
Cash and cash equivalents at the beginning of the year		**43,800**	47,222
Cash and cash equivalents at the end of the year, represented by bank balances and cash		**130,300**	43,800

1. GENERAL

The Company was incorporated in the Cayman Islands on 7 March 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The principal activities and other details of the Company's subsidiaries are set out in Note 38.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

In preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), the Group has undertaken certain reorganisation and restructuring (the " Group Reorganisation"), which were set out in the prospectus dated 6 June 2012 ("Prospectus"). The Company's shares were listed on the GEM of the Hong Kong Stock Exchange on 12 June 2012.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied a number of amendments to standards that are mandatorily effective for the Group's financial year ended 31 December 2012.

The application of the amendments to standards in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[4]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[3]
IAS 19 (Revised in 2011)	Employee Benefits[1]
IAS 27 (Revised in 2011)	Separate Financial Statements[1]
IAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2015
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2014

The directors of the Company ("Directors") anticipate that the application of the new and revised IFRSs will have no material impact on the amounts reported in these consolidated financial statements and/or disclosures set out these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income and expense of a subsidiary is attributed to the equity holders of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's interest in a subsidiary that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity (in "capital reserves") and attributed to the equity holders of the Company.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquiree's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Contingent rents recognised as income in the year in which they are earned.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority to the same group entity and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated cost necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

Warranty

Provisions for warranty costs are recognised at the date of completion of construction contracts and at the Directors' best estimate of the expenditure required to settle the Group's obligation.

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, restricted bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised by applying the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered not recoverable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the group entities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group entities after deducting all of its liabilities.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to related parties, bank and other borrowings) are subsequently measured at amortised cost using effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment, useful lives and residual values of property, plant and equipment

The Directors assesses whether there are any indicators of impairment for an asset at the end of each reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. The Directors based on physical damage and technical obsolescence to assess whether the indicators of impairment for an asset exist.

Useful lives and residual values are reviewed by the Directors at the end of each reporting period. In determining the useful life and residual value of an item of property, plant and equipment, the Directors consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Adjustments to depreciation is made in the period which the revised estimate takes place if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation.

At 31 December 2012, the property, plant and equipment of the Group amounted to RMB12,157,000 (31 December 2011: RMB6,451,000). Any change in the Directors' assessment on impairment, useful lives and residual values of property, plant and equipment will affect the depreciation and the impairment loss to be charged in the profit or loss on a prospective basis.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2012, the carrying amount of goodwill is RMB30,099,000 (31 December 2011: RMB30,099,000). Details of the recoverable amount calculation are disclosed in Note 16.

Impairment on doubtful receivables

In determining whether there is objective evidence of impairment on doubtful receivables, the Group takes into consideration of the aged analysis of trade receivables and the estimation of future cash flows recoverable from these receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the impairment on doubtful receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise.

As at 31 December 2012, the carrying amount of trade receivables is RMB105,411,000 (31 December 2011: RMB62,320,000), which are after impairment on doubtful receivables of RMB182,000 (31 December 2011: RMB207,000) (see Note 19).

Provision for warranty

The Group typically provides warranties for one year, after the completion of construction projects, to the customers. Provision for warranty costs are recognised at the date of completion of the relevant projects and at the Directors' best estimate of the expenditure required to settle the Group's obligation.

In making the provision, the Directors consider the actual product failure rates for similar projects, material usage and service delivery costs incurred in servicing these warranty claims, as well as recent trends that suggest that past cost information may differ from future claims. In this regard, Directors are satisfied that adequate provision for warranty had been made in light of the historical statistics of the Group. Where the actual claims are more than expected, an additional provision for warranty may arise.

As at 31 December 2012, the carrying amount of the provision for warranty are RMB112,000 (31 December 2011: RMB60,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Construction contracts

Revenue and profit recognition on construction contracts are recognised by reference to the stage of completion of the contract activity at the end of each reporting period, which is measured as total contract costs incurred for work performed to date relative to estimated total contract costs to be incurred upon completion of the construction contract.

In estimating the total contract costs, management considers the actual costs incurred for similar completed contracts as well as market prices of raw materials, subcontract labor costs and other related costs that will affect the estimation of budget cost, based on past experience and current market information.

As market conditions keep changing, actual costs incurred upon completion of the project may differ significantly from that initially estimated, which would affect the amounts due from customers for contract work, contract revenue and profit recognised in the period which such changes take place.

As at 31 December 2012, the carrying amount of the amounts due from customers for contract work is RMB139,745,000 (31 December 2011: RMB63,480,000).

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of goods	**14,454**	14,410
Construction contract revenue	**223,408**	141,341
Services income	**8,441**	5,918
Rental income	**65**	65
	246,368	161,734

The above rental income was generated from certain using right of sewer sub-rent to telecommunication operators in the PRC. In accordance with those sub-rent agreements, the rental income was recognised based on the actual distance of sewer used by the telecommunication operators.

6. SEGMENT INFORMATION

Mr. Jiang is the controlling party and the chief operating decision maker of the Group. He reviewed the sales of major products for the purpose of resources allocation and performance assessment. Accordingly, the Group does not have any identifiable segment or any discrete information for segment reporting purpose.

Revenue from major products and services

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Deployment services of optical fibers		
– sales of goods	**990**	2,599
– provision of services	**165,210**	112,638
Low-voltage equipment integration services		
– sales of goods	**13,464**	11,811
– provision of services	**58,198**	28,703
Pipeline maintenance service	**8,441**	5,918
Rental income	**65**	65
	246,368	161,734

Geographical disclosures

The Group operates in the PRC. All of the non-current assets of the Group are located in the PRC.

The Group's revenue from external customers by geographical location is detailed below:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
The PRC	**246,368**	161,720
Overseas	**—**	14
	246,368	161,734

6. SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from the customer of the corresponding year contributed over 10% of the total revenue of the Group is as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Customer A	**123,999**	106,811

7. OTHER INCOME

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Bank interest income	**622**	134

8. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Other gains (losses) comprise:		
Impairment loss on trade receivables	**—**	(207)
Provision of employee injury	**(10)**	(450)
Net foreign exchange (loss) gain	**(316)**	675
(Loss)gain on disposal of property, plant and equipment	**(592)**	6
Gain on discharge of long outstanding payables	**—**	486
Recovery of other receivables (Note (a))	**—**	2,735
Fair value adjustment on initial recognition of other borrowings (Note 24)	**1,826**	1,282
Gain on sales of scrap material	**23**	—
Gain on discharge of obligations under convertible loans (Note (b))	**—**	6,352
	931	10,879

Note:

(a) This amount mainly represents the subsequent collection of other receivables by Hebei Deer which were fully written-off before the re-organisation for listing.

(b) In June 2011, Partnerfield has entered into agreements with the lenders to settle the entire outstanding balances of other borrowings which represented amounts payable by Partnerfield for settlement of convertible loans matured in the year ended 31 December 2008 of HK$15,044,000 (approximately RMB12,522,000). Pursuant to the agreements, the Group agreed to pay HK$7,420,000 (approximately RMB6,170,000) to the lenders to discharge all obligations of Partnerfield under the convertible loans resulted in a gain of HK$7,624,000 (approximately RMB6,352,000).

9. FINANCE COSTS

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Imputed interest expenses on other borrowings (Note 24)	**1,344**	1,282
Interest on other borrowings	**234**	252
Interest on bank borrowings wholly repayable within five years	**679**	408
	2,257	1,942

10. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**1,499**	1,005
Amortisation of intangible assets (Note (a))	**12**	1,534
Operating lease rentals in respect of offices	**1,292**	1,446
Cost of inventories recognised as expense	**54,692**	32,821
Research expenses	**627**	1,051
Provision of warranty costs	**52**	35
Staff costs:		
Directors' emoluments (Note 12)	**851**	416
Other staff costs	**16,900**	10,903
Total staff costs (Note (b))	**17,751**	11,319

Notes:

(a) The amortisation of intangible assets was further analysed as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Amortisation included in:		
Cost of sales/services	**—**	1,528
Administrative expenses	**12**	6
	12	1,534

(b) The total staff costs include retirement benefit cost of RMB1,829,000 for the year ended 31 December 2012 (2011: RMB1,015,000).

11. INCOME TAX EXPENSE

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current tax:		
PRC enterprise income tax	**5,523**	3,129
Underprovision in prior year	**—**	2
	5,523	3,131
Deferred tax (Note 26):		
Current year	**1,986**	(306)
Withholding tax	**1,916**	1,366
	3,902	1,060
	9,425	4,191

Other than set out below, the PRC enterprise income tax for the Group's subsidiaries established in the PRC is 25%:

(a) Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 14 September 2011, the company's subsidiary, 北京優通泰達電氣新技術發展有限公司 Beijing U-Ton Teda Electrical New Technology Development Co., Ltd. ("Beijing U-Ton") had been designated as a High and New Technology Enterprise and its PRC enterprise income tax rate is 15% for three years since the year of 2011.

(b) Pursuant to a certificate issued by the local tax authority, in accordance with the Measures on Authorised Methods of EIT Collection (Trial) (企業所得徵收辦法(試行)), Hebei Changtong's taxable income was computed based on 8% of its total revenue.

(c) Pursuant to the PRC enterprise income tax assessment form issued by the local tax authority, in accordance with the Measures on Authorised Methods of EIT Collection (Trial) (企業所得徵收辦法(試行)), taxable income of Shijiazhuang Qiushi was computed based on 7% of its total revenue.

The PRC enterprise income tax computation bases of Hebei Changtong and Shijiazhuang Qiushi as set out in (b) and (c) above are subject to the approval of relevant PRC tax authorities on a year-by-year basis.

11. INCOME TAX EXPENSE *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before taxation	**75,133**	61,029
PRC enterprise income tax at applicable tax rate of 25%	**18,784**	15,257
Tax effect on:		
Expenses not deductible for tax purposes	**4,805**	3,092
Income not subject to tax	**(588)**	(2,842)
Concessionary rates granted to a PRC subsidiary	**(1,515)**	(56)
Taxable income estimated on total revenue	**(14,998)**	(12,628)
Tax loss not recognised	**1,021**	—
Under provision in prior year	**—**	2
Withholding tax on undistributed profit of PRC entities	**1,916**	1,366
Tax charge for the year	**9,425**	4,191

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

The emoluments paid or payable to each of the Directors by the group companies during the year were as follows:

Name of director	Directors' fees RMB'000	Basic salaries and allowances RMB'000 (Note)	Discretionary performance bonus RMB'000	Retirement benefit contribution RMB'000	Total RMB'000
Year ended 31 December 2012					
Executive directors:					
Mr. Jiang	**133**	**187**	**25**	**22**	**367**
Ms. Guo	**100**	**144**	**—**	**19**	**263**
Mr. Li	**100**	**53**	**—**	**8**	**161**
Independent directors:					
Meng Fanlin	**20**	**—**	**—**	**—**	**20**
Wang Haiyu	**20**	**—**	**—**	**—**	**20**
Li Xiaohui	**20**	**—**	**—**	**—**	**20**
	393	**384**	**25**	**49**	**851**
Year ended 31 December 2011					
Mr. Jiang	—	202	18	17	237
Ms. Guo	—	139	—	9	148
Mr. Li	—	24	—	7	31
	—	365	18	33	416

Note: The discretionary performance bonus is determined by reference to the performance of the Directors.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors *(Continued)*

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

No Directors waived any emoluments during the year.

Employee

The five highest paid individuals of the Group in the year included three Directors (2011: two Directors). The emoluments of the remaining two (2011: three) highest paid individuals for the year are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salary	**833**	371
Discretionary performance bonus	**—**	149
Recognition of equity-settled share-based payments	**1,394**	—
Retirement benefit contributions	**51**	21
	2,278	541

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the remaining two (2011: three) highest paid individuals are within the following band:

	Year ended 31 December	
	2012	2011
Nil to HK$1,000,000	**1**	3
HK$2,500,001 to HK$3,000,000	**1**	—

13. DIVIDENDS

No dividends have been paid or declared by the Company during both years.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to equity holders of the Company is based on the following data:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**65,708**	55,381

	Year ended 31 December	
	2012	2011
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,494,098**	1,227,836
Effect of dilutive potential ordinary shares arising from issue of share options by the Company	**311**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,494,409**	N/A

The calculation of basic earnings per share for both years are based on 1,260,000,000 shares in issue after taking into account the Group reorganisation, except for the acquisition of Shijiazhuang Qiushi, and capitalisation issue as disclosed in Notes 34 and 27.

No diluted earnings per share is presented for the year ended 31 December 2011 as there were no potential ordinary shares outstanding during that period.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Motor vehicles RMB'000	Machinery RMB'000	Office equipment RMB'000	Total RMB'000
COST					
At 1 January 2011	700	1,445	3,264	1,870	7,279
Additions	—	844	1,434	286	2,564
Acquisition of a subsidiary (Note 34)	—	23	19	49	91
Disposals	—	(55)	(22)	—	(77)
At 31 December 2011	700	2,257	4,695	2,205	9,857
Additions	—	3,982	3,474	415	7,871
Disposals	—	(98)	(1,323)	(113)	(1,534)
At 31 December 2012	700	6,141	6,846	2,507	16,194
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	180	447	584	1,200	2,411
Charge for the year	22	261	454	268	1,005
Eliminated on disposal	—	(8)	(2)	—	(10)
At 31 December 2011	202	700	1,036	1,468	3,406
Charge for the year	23	520	613	343	1,499
Eliminated on disposal	—	(25)	(734)	(109)	(868)
At 31 December 2012	225	1,195	915	1,702	4,037
CARRYING AMOUNT					
At 31 December 2012	475	4,946	5,931	805	12,157
At 31 December 2011	498	1,557	3,659	737	6,451

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

Leasehold land and building	3.23%
Motor vehicles	19.40%
Machinery	9.70% - 31.70%
Office equipment	19.40%

The leasehold land and building is located in Hengshui City Hebei Province, the PRC. The lease payment of the land element cannot be allocated reliably from the building and the leasehold land and building is accounted for as property, plant and equipment in its entirety. The land use right has a term of 50 years and will be expired on 1 May 2052.

16. GOODWILL

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost and carrying amounts		
Balance at beginning of year	**30,099**	—
Addition recognised from business combination occurred during the year (Note 34)	**—**	30,099
Balance at end of year	**30,099**	30,099

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill has been allocated to the following cash generating unit ("CGU").

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Low-voltage equipment integration services located in Shijiazhuang, the PRC	**30,099**	30,099

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling price and direct costs. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

16. GOODWILL *(Continued)*

For the purpose of impairment testing, the Group prepares cash flow projection covering a 5-year period. The calculation uses cashflow projections based on financial budgets approved by management covering a 5-year period and discount rate of 19% (At 31 December 2011: 19%). The cash flows beyond the 5-year period are extrapolated by assuming a growth rate of 3% in revenue in the CGU (At 31 December 2011: 3%).

The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the CGU.

17. INTANGIBLE ASSETS

The movements of the Group's intangible assets for the year are set out as follows:

	Backlog contracts RMB'000	**Software licenses** RMB'000	**Total** RMB'000
COST			
At 1 January 2011	—	3	3
Addition	—	14	14
Acquisition of a subsidiary (Note 34)	1,528	—	1,528
At 31 December 2011	1,528	17	1,545
Addition	—	94	94
At 31 December 2012	1,528	111	1,639
ACCUMULATED AMORTISATION			
At 1 January 2011	—	—	—
Charge for the year	1,528	6	1,534
At 31 December 2011	1,528	6	1,534
Charge for the year	—	12	12
At 31 December 2012	1,528	18	1,546
CARRYING VALUE			
At 31 December 2012	—	93	93
At 31 December 2011	—	11	11

The software licenses have finite useful lives and are amortised on a straight-line basis over 5 years.

All backlog contracts were completed during the year ended 31 December 2011.

18. INVENTORIES

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Raw materials	**1,817**	1,056
Finished goods	**1,311**	1,790
	3,128	2,846

19. TRADE AND BILL RECEIVABLES

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Trade receivables - current portion	**89,101**	62,527
Less: Allowance for impairment of receivables	**(182)**	(207)
	88,919	62,320
Bill receivable	**—**	3,996
	88,919	66,316
Trade receivables - non-current portion	**16,492**	—
	105,411	66,316

Included in the Group's trade receivables is a balance with amount of RMB26,303,000, has been recognised at initial recognition, which is repayable by installments over a period of 10 years which is non-interest bearing. A fair value adjustment at an effective interest rate of 8.4% amounting to RMB6,692,000.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Receivable:		
Within one year	**3,119**	—
Two to five years	**13,252**	—
Over five years	**3,240**	
	19,611	—
Less: current portion	**(3,119)**	—
	16,492	—

19. TRADE AND BILL RECEIVABLES *(Continued)*

The collection period of the majority of the trade receivables ranges from 30 to 180 days from the invoice date during the year. No interest is charged on the outstanding balance. There is no credit term granted to customers.

The following is an aged analysis of trade and bill receivables by invoice/completion certificate date at the end of the reporting period, which approximated the respective revenue recognition dates:

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	**97,329**	58,699
91 to 180 days	**784**	2,051
181 to 365 days	**2,913**	3,138
1 to 2 years	**4,292**	2,186
2 to 3 years	**93**	242
Total trade and bill receivables	**105,411**	66,316

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB78,875,000 (31 December 2011: RMB63,978,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	**73,403**	57,202
91 to 180 days	**637**	2,008
181 to 365 days	**2,195**	3,077
1 to 2 years	**2,640**	1,549
2 to 3 years	**—**	142
	78,875	63,978

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables at the end of each reporting period.

In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of reporting period and assesses portfolio of receivable on a collective basis to ensure that adequate impairment losses are made for irrecoverable amounts. The Directors believe that no further provision is required in excess of the provision for impairment of receivables.

19. TRADE AND BILL RECEIVABLES *(Continued)*

Movements of allowance for impairment of receivables are set out as follow:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Balance at beginning of year	**207**	—
Additions recognised during the year	**—**	207
Amounts written off during the year as uncollectible	**(25)**	—
Balance at end of year	**182**	207

At 31 December 2012, retentions held by customers for contract works included in trade receivables amounted to RMB6,925,000 (31 December 2011: RMB2,338,000).

20. OTHER RECIEVABLES, DEPOSITS AND PREPAYMENTS

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Other receivables - non-trade	**3,649**	50
Advances to suppliers	**3,518**	1,215
Deposits	**2,671**	1,086
Other	**1,074**	331
	10,912	2,682

The non-trade other receivables represent the amounts advance to independent third parties for their short term financing purpose. The amounts are unsecured, interest-free and expected to be recovered within 12 months from the end of respective reporting period.

21. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profit or loss	**139,745**	63,480
Less: progress billings	**—**	—
	139,745	63,480
Analysed for reporting purpose as:		
Amounts due from contract customers	**139,745**	63,480

22. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

The restricted bank deposits were mainly used to secure the Group's bill facilities and bank borrowings, and these bank deposits will be released upon the settlement of relevant bill facilities and bank borrowings.

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Bill facilities	**—**	5,053
Bank borrowings	**20,271**	—
Others	**274**	274
	20,545	5,327

Bank balances and cash comprise cash and short-term deposits held by the Group with an original maturity of three months or less.

Restricted bank deposits and bank balances carry prevailing market interest rate of 1.26% per annum as at 31 December 2012 (31 December 2011: 0.5% per annum).

At the end of each reporting period, included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities to which they relate.

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Bank balances and cash denominated in:		
USD	**96**	96
HKD	**39,836**	632
EUR	**161**	322
	40,093	1,050

23. TRADE AND OTHER PAYABLES

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Trade payables	**54,323**	37,257
Bill payables	**—**	5,052
Other payables	**4,993**	8,949
Other tax payables	**7,728**	4,216
Accrued payroll	**8,405**	5,795
	75,449	61,269

The Group has financial risk management policies in place to ensure that payables are within the credit timeframe.

23. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade and bill payables by date of invoices received at the end of the reporting period:

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	**37,453**	25,791
91 to 180 days	**6,357**	5,561
181 to 365 days	**6,829**	10,402
1 to 2 years	**3,684**	483
2 to 3 years	**—**	47
Over 3 years	**—**	25
	54,323	42,309

24. BANK AND OTHER BORROWINGS

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Secured bank borrowings	**26,184**	4,956
Other borrowings - interest free	**18,519**	—
Other borrowings - interest bearing	**15,000**	932
	59,703	5,888

At 31 December 2012, bank borrowings of RMB12,884,000 (31 December 2011: RMB4,956,000) and RMB8,300,000 (31 December 2011: nil) are carried at floating rates, secured by a charge over certain of the Group's trade receivables and bank deposits with carrying amounts of RMB16,137,000 (31 December 2011: RMB6,195,000) and RMB20,271,000 (31 December 2011: nil) respectively, at 31 December 2012.

In addition, there is a bank borrowing of RMB5,000,000 carried at floating rate and secured by Ms. Guo's personnel properties as at 31 December 2012.

All the secured bank borrowings are repayable within one year from the end of the reporting period. The effective interest rates on the borrowings are as follows:

	At 31 December	
	2012	2011
	%	%
Floating-rate borrowings (Note)	**6.60**	7.26

Note: The floating rates are from 100% to 120% (31 December 2011: 115%) of the People's Bank of China's benchmark interest rate for loans.

All bank borrowings are denominated in the functional currencies of the relevant group entities.

24. BANK AND OTHER BORROWINGS *(Continued)*

During the year, the Group received advances from independent third parties, with principal amounts of RMB33,097,000 (2011: RMB20,320,000) in aggregate. These balances were unsecured, interest-free and were repayable one year from the date of drawdown. Fair value adjustment at an effective interest rate of 5.43% (31 December 2011: 6.31%) amounting to RMB1,826,000 (2011:RMB1,282,000) was credited as income. The movements of these borrowings are further analysed as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Other borrowing - principal	**33,097**	20,320
Less: Fair value adjustment (Note 8)	**(1,826)**	(1,282)
Add: imputed interest (Note 9)	**1,344**	1,282
Less: Repayment	**(14,096)**	(20,320)
	18,519	—

As at 31 December 2012, the other borrowing with interest bearing of RMB15,000,000 (31 December 2011: RMB932,000) represents the advances received from independent third parties which carried a fixed interest from 9.6% to 12% (31 December 2011: 10%) per annum. These borrowings are secured by personal guarantee of Mr. Jiang and are repayable within one year from the date of drawdown. The other borrowings are denominated in RMB.

25. PROVISION

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Balance at beginning of year	**60**	25
Amounts recognised during the year	**52**	35
Balance at end of year	**112**	60

Provision for warranty costs are recognised at the date of completion of the relevant construction projects and at the Directors' best estimate of the expenditure required to settle the Group's obligation.

At the end of each reporting period, the Directors consider the possibility of the future outflow of economic benefits that will be required under the Group's obligations for warranties.

26. DEFERRED TAXATION

The following are the deferred tax assets and liabilities recognised and movements thereon during the year:

	Intangible assets RMB'000	Trade receivables RMB'000	Undistributed retained profits RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	—	—	(831)	2,024	135	1,328
Acquisition of a subsidiary (Note 34)	(382)	9	—	—	—	(373)
Credit (charge) to profit or loss	382	46	(1,366)	(67)	(55)	(1,060)
At 31 December 2011	**—**	**55**	**(2,197)**	**1,957**	**80**	**(105)**
Credit (charge) to profit or loss	**—**	**—**	**(1,916)**	**(1,957)**	**(29)**	**(3,902)**
At 31 December 2012	**—**	**55**	**(4,113)**	**—**	**51**	**(4,007)**

	At 31 December 2012 RMB'000	At 31 December 2011 RMB'000
Presented in the consolidated financial statements as:		
Deferred tax assets	**106**	2,092
Deferred tax liabilities	**(4,113)**	(2,197)
	(4,007)	(105)

Deferred taxation in respect of the temporary differences attributable to the undistributed accumulated profits earned after 1 January 2008 by PRC subsidiaries has been provided for based on a certain percentage of undistributed profit of these subsidiaries generated from 1 January 2008 onwards in accordance with the Group's dividend policy.

No deferred tax liability has been recognised in respect of undistributed accumulated profits of PRC subsidiaries of RMB123,418,000 (31 December 2011:RMB65,940,000) as at 31 December 2012, respectively, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

27. SHARE CAPITAL/ISSUED EQUITY

The issued equity as at 31 December 2012 represents the share capital of the Company set out as follows:

	Number of shares	Share capital RMB'000
Authorised		
Ordinary shares of HK$0.10 each on incorporation and at 31 December 2011	1,000,000	81
Addition (Note (a))	3,999,000,000	325,919
At 31 December 2012	4,000,000,000	326,000
Issued and fully paid		
On incorporation	1	—
Issue of shares to initial shareholders	99	—
Issue of shares for the Group Reorganisation	900	—
At 1 January 2012	1,000	—
Issue of shares pursuant to the capitalisation issue (Note (b))	1,259,999,000	102,783
Issue of shares pursuant to the placing (Note (c))	420,000,000	34,199
At 31 December 2012	1,680,000,000	136,982

Notes:

(a) On 27 May 2012, by resolution of the shareholders of the Company, the authorised share capital of the Company was increased from HK$100,000 to HK$400,000,000 divided into 4,000,000,000 Shares by the creation of additional 3,999,000,000 Shares of HK$0.10 each.

(b) Pursuant to the shareholders' written resolutions dated 27 May 2012, 1,259,999,000 shares were issued and allotted to the shareholders by way of capitalisation of the sum of HK$125,999,900 standing to the credit of the share premium account of the Company, such shares ranking pari passu in all respect with the then existing issued shares of the Company.

(c) On 11 June 2012, 420,000,000 new shares of HK$0.10 each were issued for cash at a price of HK$0.34 per share. The new shares issued rank pari passu in all respect with the existing shares in issue.

28. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 27 May 2012 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

On 14 August 2012, the Group granted share options to an eligible participant (the "Grantee") to subscribe for a total of 6,720,000 ordinary shares of HK$0.65 per share under the Scheme, subject to acceptance of the Grantee. Such options vested on the grant date.

The following table discloses details of the Group's share options held by the eligible participant and movements in such holdings under the Scheme during the year.

				Number of Options ('000)			
	Date of grant	Exercise period	Exercise price HKD	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012
Share option	14.8.2012	15.8.2012 to 14.8.2022	0.65	—	6,720	—	6,720
Exercisable at end of the year							6,720
Weighted average exercise price				—	0.65	—	0.65

The closing price of the Group's share immediately before 14 August 2012, the date of grant, was HK$0.65 per share.

Exercise price of the share options granted is HK$0.65 per share, which represents the highest of (i) the closing price of HK$0.65 per share as stated in the daily quotation sheet of the Hong Kong Stock Exchange on 14 August 2012, being the date of grant; (ii) the average closing price of HK$0.626 per share as stated in the daily quotations sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following assumptions were used to calculate the fair value of share options:

Share Price (HK$)	0.65
Option Strike Price (HK$)	0.65
Assumed Time to Maturity	5 years
Risk-free Interest Rate	0.26%
Annualised Volatility	49%
Expected Dividend Yield	1.15%

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimation. Changes in variables and assumptions may result in changes in the fair value of the options.

Annualised volatility was estimated based on the average of historical volatilities of the comparable companies, since there are no historical data for the Company.

The Company recognised the total expense of HK$1,705,000 (equivalent to RMB1,394,000) for the year ended 31 December 2012 in relation to share options granted by the Company.

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 6,720,000 (31 December 2011: nil), representing 0.4% (31 December 2011: nil) of the shares of the Company in issue at that date.

29. RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The group entities in the PRC contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The Group also participates in a defined contribution scheme, Mandatory Provident Fund Scheme (the "MPF Scheme"), established under the Hong Kong Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group, in funds under the control of independent trustees.

The retirement benefit cost charged to the consolidated statements of comprehensive income represents contributions payable to the funds by the Group at rate specified in the rules of the schemes. For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The maximum monthly amount of contribution is limited to HK$1,250 (2011: HK$1,000) per employee.

30. OPERATING LEASE COMMITMENT

The Group as a lessee

At the end of the reporting period, the Group had future minimum lease payments under non-cancelable operating leases in respect of leased properties are as follows:

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Within one year	**1,154**	1,265
In the second to fifth year inclusive	**45**	1,027
	1,199	2,292

Operating lease payments represent rentals payable by the Group for office premises. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements.

The operating lease payments disclosed above do not include amounts which are related to the using right of sewer. The Group has entered into several agreements for exclusive sewer using rights with local governments in certain target cities. In accordance with those lease agreements, the rentals were charged based on the actual distance of sewer used by the Group.

The Group as a lessor

The Group has entered into certain agreements to sub-rent the sewer using rights to telecommunication operators in the target cities. In accordance with those sub-rent agreements, the rental income was recognised based on the actual distance of sewer used by the telecommunication operators.

31. RELATED PARTY BALANCES AND TRANSACTIONS

(a) For the current year, the following parties are identified as related party to the Group and the respective relationships are set out below:

Name of related party	**Relationship**
河北德源管業製造有限公司 ("Hebei Deyuan")	Controlled by Mr. Jiang
河北乾源通信設備有限公司 ("Hebei Qianyuan")	Controlled by Mr. Jiang and Ms. Guo
河北瑞輝新型節能玻璃製品有限公司 ("Hebei Ruihui")	Controlled by Mr. Du Yanhua*
河北鑫華羊絨有限公司 ("Hebei Xinhua")	Controlled by Mr. Du Yanhua*
Mr. Jiang	Shareholder and director of the Company
Ms. Guo	The spouse of Mr. Jiang
Mr. Li	Shareholder and director of the Company
Ms. Ren Yanping	The spouse of Mr. Li
Ordillia Group Limited ("Ordillia")	Controlled by Mr. Li

* Mr. Du Yanhua was a member of Group's key management personnel in 2011 and he left the Group in 2012.

(b) At the end of the reporting period, the Group has amounts payable to the following related parties and the details are set out below:

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Non-trade nature:		
Hebei Ruihui	**—**	1,800
Ms. Guo	**—**	4,130
Mr. Jiang	**—**	16,347
Mr. Li	**1,900**	8,115
Ms. Ren Yanping	**—**	2,603
Ordillia	**—**	5,889
Hebei Xinhua	**—**	200
	1,900	39,084

The amounts are unsecured, interest-free and repayable on demand.

31. RELATED PARTY BALANCES AND TRANSACTIONS *(Continued)*

(c) During the year, the Group entered into the following transactions with its related parties:

Name of related party	Nature of transactions	Year ended 31 December **2012** **RMB'000**	 2011 RMB'000
Ms. Guo	Rental expense	—	30
Hebei Qianyuan	Rental expense	—	360
Hebei Deyuan	Rental expense	—	35

(d) The remuneration paid and payable to the key management of the Company who are also the Directors for the year is set out in Note 12.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 24, net of bank balances and cash and equity attributable to equity holders of the Company, comprising issued equity, reserves and accumulated profits.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to balance its overall capital structure.

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Year ended 31 December **2012** **RMB'000**	 2011 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	**261,326**	116,635
Financial liabilities		
Liabilities measured at amortised cost	**129,324**	102,025

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bill receivables, other receivables, restricted bank deposits, bank balances and cash, trade and other payables, amount due to related parties, and bank and other borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates risks (see below).

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over the year.

Interest rate risk management

The Group's fair value interest rate risk relates primarily to interest free other borrowings and fixed rate interest bearing other borrowings from independent third parties (see Note 24 for details of these borrowings). For cashflow interest rate risk, interest bearing financial instruments are mainly bank deposits and secured bank borrowings which are all short term in nature and carry market interest rates. Therefore, the Group is not exposed to significant interest risk due to short maturity of financial assets and liabilities. Accordingly, no sensitivity analysis is presented. The Group currently does not have an interest rate hedging policy and will consider hedging the risk exposures should the need arise.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk management

The Group has bank balances and cash, other receivables, and other payables which are denominated in foreign currencies and consequently it has foreign exchange risk exposure resulting from translation of amount denominated in foreign currencies. The Group does not hedge its exposure in this respect but monitor these closely. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Financial assets		
USD	**96**	96
HKD	**43,501**	668
EUR	**161**	322
Financial liabilities		
HKD	**2,831**	11,079

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year where Renminbi strengthens 5% against foreign currencies. For a 5% weakening of Renminbi against foreign currencies, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
USD	**(4)**	(5)
HKD	**(1,552)**	521
EUR	**(6)**	(16)

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted procedures in monitoring its credit risk.

The Group's current credit practices include assessment and evaluation of customer's credit reliability and periodic review of their financial status to determine credit limit to be granted. The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those financial assets as stated in the consolidated statements of financial position.

The Group is exposed to high concentration of credit risk as the Group relies on the major telecommunication operators in PRC. At 31 December 2012, the largest debtors accounted for approximately 38% (31 December 2011: 60%) of the Group's total trade and bill receivables respectively. The Group has explored new markets and new customers and launched new products in order to minimise the concentration of credit risk.

The credit risk on liquid funds is limited because the banks are with good reputation.

Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings. The Directors closely monitor the liquidity position and expect to have adequate sources of funding to finance the Group's projects and operations.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk management *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

	Weighted Average interest rate %	Repayable less than 1 year RMB'000	1 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	—	57,053	—	57,053	57,053
Amounts due to related parties	—	39,084	—	39,084	39,084
Bank borrowings-variable rate	7.26	5,136	—	5,136	4,956
Other borrowings-fixed rate	10.00	1,025	—	1,025	932
At 31 December 2011		102,298	—	102,298	102,025
Trade and other payables	**—**	**67,721**	**—**	**67,721**	**67,721**
Amounts due to related parties	**—**	**1,900**	**—**	**1,900**	**1,900**
Bank borrowings-variable rate	**6.60**	**27,219**	**—**	**27,219**	**26,184**
Other borrowings-fixed rate	**9.82**	**15,450**	**—**	**15,450**	**15,000**
Other borrowings-interest free	**—**	**19,000**	**—**	**19,000**	**18,519**
At 31 December 2012		**131,290**	**—**	**131,290**	**129,324**

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their respective fair values at the end of each reporting period.

34. ACQUISITION OF SUBSIDIARIES

On 1 March 2011, the Group acquired 100% equity interest in Shijiazhuang Qiushi for a combined consideration of cash and Partnerfield's shares. Before the acquisition took place, Shijiazhuang Qiushi was wholly owned by Mr. Li, who subsequently became one of the Directors, and his spouse.

The major purpose of the acquisition is to broaden the Group's revenue stream and to extend its business to cover indoor services. The acquisition will also diversify the Group's product varieties and increase the market share of the Group.

Shijiazhuang Qiushi is principally engaged in the business of providing telecommunication equipments to telecommunication operators and installation service for low-voltage equipments and accessories.

Consideration transferred

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

Notes:

a. In accordance with the equity transfer agreement, the cash consideration of RMB9,669,000 will be paid within three months from the acquisition date and such amount is included in amount due to Mr. Li and his spouse as at 31 December 2011. The amount has been settled during the year ended 31 December 2012.

b. On 1 March 2011, Partnerfield issued and allotted 5,626 shares (equivalent to 15.79% of Partnerfield's total equity interest) to Mr. Li as part of the consideration. On the date of acquisition, the fair value of Partnerfield's total equity interest is RMB201,823,000.

   The fair value of Partnerfield's equity has been arrived on the basis of discounted cash flow method carried out on the date of acquisition by American Appraisal China Limited, an independent firm of valuers, who have an appropriate recognised professional qualification. The calculation uses cashflow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 17%. The cash flows beyond the 5-year period are extrapolated using an estimated growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

There was no acquisition-related cost incurred for the above transaction.

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

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 amounts to receive of RMB8,222,000. The best estimate at acquisition date of the cash flows not expected to be collected is RMB34,000.

Goodwill arising on acquisition

	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.

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

Net cash inflow on acquisition of Shijiazhuang Qiushi

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

Impact of acquisitions on the results of the Group

Included in the profit for the year ended 31 December 2011 is RMB13,090,000 attributable to the additional business generated by Shijiazhuang Qiushi. Revenue for the year ended 31 December 2011 includes RMB41,370,000 in respect of Shijiazhuang Qiushi.

Had the acquisition been completed on 1 January 2011, total revenue of the Group for the period would have been RMB162,111,000, and profit for the year would have been RMB56,912,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The Company's statement of financial position as at 31 December 2012 is disclosed as below:

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Non-current assets		
Investment in unlisted shares in a subsidiary, at cost	**47,004**	47,004
Current assets		
Other receivables, deposits and prepayments	**3,649**	—
Amount due from a subsidiary	**24,149**	932
Restricted bank deposits	**20,271**	—
Bank balances and cash	**57,812**	—
	105,881	—
Current liabilities		
Other payables	**1,998**	—
Other borrowings	**—**	932
Net current assets	**103,883**	—
Net assets	**150,887**	47,004
Capital and reserves		
Share capital (Note 27)	**136,982**	—
Share premium (Note)	**18,000**	47,004
Share option reserve (Note 28)	**1,394**	—
Accumulated loss	**(5,489)**	—
	150,887	47,004

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Balance at beginning of the year	**47,004**	—
Arising from share swap for equity interest (Note)	**—**	47,004
Issue of shares to initial shareholders pursuant to the capitalisation issue (Note 27)	**(102,783)**	—
Issue of shares pursuant to the placing (Note 27)	**73,779**	—
Balance at end of the year	**18,000**	47,004

Note:

On 11 May 2011, Mr. Jiang transferred the 80% equity interest in Partnerfield held by him to the Company in exchange for 720 shares of the Company issued as consideration. Mr. Li and Plansmart transferred the 15.79% and 4.21% equity interest in Partnerfield held by each of them to the Company, respectively in exchange for 180 shares of the Company issued as consideration in aggregate. Upon completion, the Company continued to be indirectly owned as to 80% and 20% by Mr. Jiang and Mr. Li, respectively.

36. CAPITAL COMMITMENTS

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,600**	83

37. CONTINGENT LIABILITIES

A subsidiary has been named as a defendant in the Shijiazhuang Changan District People's Court and the Hebei Shijiazhuang Intermediate People's Court action in respect of an alleged compensation for injuries. The potential claim amount shall be subject to the actual damages, including medical and rehabilitation expenses, transportation, etc., reasonably incurred by the applicant and the maximum amount of the claim against the Group will be determined by the court.

According to the paper of civil mediation issue by Shijiazhuang Yuhua District People's Court on 17 September 2012, the subsidiary paid RMB460,000 for economic damage to the applicant in October 2012, and an additional amount of RMB10, 000 in respect of the claim was recognised in 2012.

38. SUBSIDIARIES

The Company has direct and indirect interests in the following entities comprising the Group:

Name of entity	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interests attributable to the Group At 31 December 2012	2011	Principal activities
Partnerfield	British Virgin Islands 7 July 2005	USD35,625	**100%**	100%	Investment holdings
Hebei Deer	The PRC 20 October 2003	RMB33,231,790	**100%**	100%	Research and development of the technology for optical fiber cable installation in duct
Hebei Changtong	The PRC 22 June 2001	RMB50,000,000	**100%**	100%	Deployment of underground optical fibers
Beijing U-Ton	The PRC 22 January 2007	RMB10,000,000	**100%**	100%	Deployment of underground optical fibers
Shijiazhuang Qiushi	The PRC 25 March 1999	RMB10,180,000	**100%**	100%	Installation of low-voltage equipment and accessories

Except Partnerfield which is directly held by the Company, the rest of the above entities are indirectly held by the Company.