



中国优通控股
China UT Holding

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8232

2013 THIRD QUARTERLY REPORT

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CHOICE OF LANGUAGE OR MEANS OF RECEIPT OF CORPORATE COMMUNICATIONS

This report is now available in printed form in English and in Chinese, and on the website of the Company.

If (i) registered shareholders who have received or chosen to receive a printed copy of this report wish to receive the same in the other language to that chosen by the registered shareholders; or (ii) registered shareholders who have received or chosen to receive this report by electronic means wish to receive a printed copy, or who for any reason have difficulty in receiving or gaining access to this report on the Company’s website, they may obtain the same free of charge by sending a request to, in the case of registered shareholders, the Company’s share registrar and transfer office, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Wan Chai, Hong Kong.

For registered shareholders who wish to change their choice of language or means of receipt of the Company’s future corporate communications free of charge, they could at any time notify the Company’s share registrar and transfer office by post (at the address mentioned above).

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Highlights

- The Company reported a profit attributable to the equity holders of the Company of RMB27,136,000 for the nine months ended 30 September 2013, a decrease of RMB2,388,000 when compared with the corresponding period of the previous financial year.
- The Group's revenue was approximately RMB179,435,000 for the nine months ended 30 September 2013, an improvement of RMB51,929,000 when compared with the corresponding period of the previous financial year.
- Gross profit margin for the nine months ended 30 September 2013 was approximately 36.6% (2012: 47.1%), which translates into gross profit of approximately RMB65,629,000, an increase of RMB5,517,000.
- Earnings per share for the nine months ended 30 September 2013 was RMB1.6 cents and decrease of RMB0.5 cents compared to RMB2.1 cents for the corresponding period of the previous financial year. The decrease of earnings per share was due to net effect of the increase of weighted average number of shares after the placement of new shares of the Company in June 2012 and increase of profit for the current period.
- The Board does not recommend payment of any interim dividend for the period.
- The backlog amount for the deployment projects of optical fibers as at 30 September 2013 amounted to approximately RMB140,138,000 (30 September 2012: RMB 76,419,000).

	For the nine months ended 30 September	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	179,435	127,506
Cost of sales/services	(113,806)	(67,394)
Gross profit	65,629	60,112
Other income	1,348	247
Other gains and losses	(1,794)	1,307
Marketing and distribution expenses	(4,923)	(4,054)
Administration expenses	(24,568)	(12,147)
Listing expenses	—	(10,411)
Finance costs	(4,450)	(1,306)
Profit before taxation	31,242	33,748
Income tax expense	(3,225)	(4,224)
Profit and total comprehensive income for the period	28,017	29,524
Profit for the period attributable to non-controlling interests	(881)	—
Profit for the period attributable to the equity holders of the Company	27,136	29,524

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)

Company's Website

www.chinauton.com

Authorised Representatives

Jiang Changqing
Pang Chun Kit

Auditor

Deloitte Touche Tohmatsu

Legal Adviser

Li & Partners

Compliance Adviser

Guotai Junan Capital Limited

Registered Office

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head Office, Headquarters and Principal Place of Business in the PRC

Room 103, Huaibei Road 465,
Yuhua District, Shijiazhuang
Hebei Province
China

Principal Place of Business in Hong Kong

Room 2404
24/F, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
1 Garden Road,
Hong Kong

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

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

8232

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China U-Ton Holdings Limited (“China U-Ton” or the “Group”) is principally engaged in providing deployment services of optical fibers in the PRC. The Group utilizes its proprietary micro-ducts and micro-cables system deployment technology and integrates it with the traditional deployment method to provide efficient and low-cost optical fiber network construction and capacity expansion services for densely populated areas and areas which are insufficient of pipelines. In recent years, driven by the emerging modes of consumption such as household broadband access, internet videos, online shopping, micro media, mobile games and mobile videos, the information and telecommunication industry has experienced rapid development. The Ministry of Industry and Information Technology of the People’s Republic of China (the “MIIT”) estimates that the value of information technology consumption for the period between January and May 2013 has reached RMB1.38 trillion, representing an increase of 19.8% over the same period of the previous year. Telecommunication operators are increasing the investments in optical fiber network development and upgrade projects to tap the significant market potential which drives the demand for the Group’s principal business – deployment services of optical fibers and thus enables us to achieve significant growth in revenue. The Group has seized the market opportunities and actively explored new markets. Following the successful expansion in Sichuan market at the end of 2012, the Group acquired 51% of the issued share capital of each of two telecommunication construction companies, Chongqing Wuyang Communication Technology Co. Ltd (重慶五洋通信技術有限公司) (“Chongqing Wuyang”) and Hunan San Cheng Communication Construction Co. Ltd (湖南三成通信建設有限公司) (“Hunan San Cheng”) in the first half of 2013. Leveraging the well-established local business relations and networks of the two companies in their respective markets, the Group could penetrate Chongqing, Guizhou and Hunan markets within a relatively short period of time to further expand its business scope and increase its market share. Revenue contributed by Chongqing Wuyang and Hunan San Cheng for the nine months ended 30 September 2013 amounted to RMB9,650,000 and RMB16,660,000 respectively.

Revenue

The Group’s revenue for the nine months ended 30 September 2013 amounted to RMB179,435,000 (2012: RMB127,506,000), representing an increase of 40.7% over the same period last year. Our two core businesses, deployment services of optical fibers and low-voltage equipment integration, accounted for 90.5% and 6.8% respectively of the total revenue of the Group. At the end of 2012, the Group successfully expanded into the Sichuan and Guizhou markets for its deployment services of optical fibers. After half a year’s vigorous development, these markets have experienced rapid growth. During the nine months ended 30 September 2013, the business in Sichuan Province and Guizhou Province contributed RMB49,879,000 and RMB12,307,000 to the Group’s revenue, accounting for 30.7% and 7.6% of the revenue from development services of optical fibers respectively.

	For the nine months ended 30 September 2013		For the nine months ended 30 September 2012		Amount Increase/ (Decrease)
	(in RMB'000)	%	(in RMB'000)	%	
Deployment services of optical fibers	162,437	90.5	100,300	78.6	62.0
Low-voltage equipment integration services	12,151	6.8	21,761	17.1	(44.2)
Others	4,847	2.7	5,445	4.3	(11.0)
Total	179,435	100.0	127,506	100.0	40.7

Gross profit and profit margin

Gross profit of the Group for the nine months ended 30 September 2013 increased by 9.2% from RMB60,112,000 for the nine months ended 30 September 2012 to RMB65,629,000. However, the overall gross profit margin decreased by 10.5% point to 36.6% due to the combined effect of lower complexity of the deployment projects of optical fibers completed by the Group and adoption of more traditional deployment method which had a lower profit margin for the projects during the period. In addition, some construction projects of deployment services of optical fibers had not been reached to a progress to recognise relevant profit. Thus, overall gross profit margin decreased accordingly.

Gross profit

	For the nine months ended 30 September 2013 (RMB'000)	For the nine months ended 30 September 2012 (RMB'000)	Increase (Decrease) (%)
Deployment services of optical fibers	57,787	51,187	12.9
Low-voltage equipment integration services	5,893	6,501	(9.4)
Others	1,949	2,424	(19.6)
Total	65,629	60,112	9.2

Gross profit margin

	For the nine months ended 30 September 2013 (%)	For the nine months ended 30 September 2012 (%)	Increase (Decrease) percent point
Deployment services of optical fibers	35.6	51.0	(15.4)
Low-voltage equipment integration services	48.5	29.9	18.6
Others	40.2	44.5	(4.3)
Total	36.6	47.1	(10.5)

Deployment services of optical fibers

The Group's deployment services of optical fibers can be categorized into two major subsets of micro-ducts and mini-cables system integration method and traditional deployment method depending on the main technology we use for each project. For the nine months ended 30 September 2013, the Group's micro-ducts and mini-cables system integration projects with revenue decreasing by 24.4% over the same period last year to RMB52,729,000 (2012: RMB69,779,000). For our traditional deployment services, revenue increasing by 259.5% over the same period last year to RMB109,708,000.

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 sometimes is comparatively 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 the related technologies, the micro-ducts and mini-cables system deployment method is increasingly recognized and adopted by telecommunication operators, especially when applying in network construction in metropolitan areas.

As a pioneer in 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 for application of micro-ducts and mini-cables system deployment technology is to obtain the rights to use 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 rights to use the public sewer systems as a resource investment. At present, the Group has obtained the exclusive rights in using the sewer systems in ten districts or cities including Beijing, Zhangjiakou, Chengde, Qinghuandao, Baoding, Xingtai, Shahe, Handan, Jinan and Meishan, and the non-exclusive right in Hengshui, which guarantees our competitive edge in such areas. Meanwhile, leveraging our track record and exclusive technologies, we also actively approach government departments in other provinces and accumulate the rights to use public sewer systems in various districts to further consolidate our competitive strength. In addition, the Group has made considerable investments in the research and development of micro-ducts and mini-cables system related products as well as the upgrade of deployment technologies. Currently, we own a total of 24 design, utility and invention patents. Particularly, the Group owns a patented formula for the production of micro-ducts products which is effective for reducing the wear and tear of micro-ducts under harsh environment (such as sewers) whilst maintaining stable signal transmission. Among the 24 patents, 6 of them are co-owned by the Group and a major telecommunication operator. Therefore, the Group's solutions are recognised by telecommunication operators and government departments.

Revenue from deployment services of optical fibers

	For the nine months ended 30 September 2013 (RMB'000)	For the nine months ended 30 September 2012 (RMB'000)	Increase (Decrease) (%)
Revenue from deployment services of optical fibers – construction contracts			
Traditional deployment method	109,708	30,521	259.5
Micro-ducts and mini-cables system integration method	52,729	69,779	(24.4)
	162,437	100,300	62.0

The following table set forth our revenue from construction contract by major location for the periods indicated.

	For the nine months ended 30 September			
	2013 (RMB'000)		2012 (RMB'000)	
	%	%	%	%
Hebei Province	68,870	42.4	78,355	78.1
Beijing	1,970	1.2	4,802	4.8
Liaoning Province	14,992	9.2	15,090	15.0
Sichuan Province	49,879	30.7	—	—
Guizhou Province	12,307	7.6	—	—
Chongqing	9,309	5.7	—	—
Hunan Province	4,577	2.8	79	0.1
Others	533	0.4	1,974	2.0
Total construction contract revenue	162,437	100	100,300	100.0

Gross profit of deployment services of optical fibers

	For the nine months ended 30 September 2013 (RMB'000)	For the nine months ended 30 September 2012 (RMB'000)	Increase (Decrease) (%)
Revenue from deployment services of optical fibers – construction contracts			
Traditional deployment method	33,899	11,684	190.1
Micro-ducts and mini-cables system integration method	23,888	39,503	(39.5)
	57,787	51,187	12.9

Gross profit margin of deployment services of optical fibers

	For the nine months ended 30 September 2013 (%)	For the nine months ended 30 September 2012 (%)	Increase (Decrease) percent point
Revenue from deployment services of optical fibers – construction contracts			
Traditional deployment method	30.9	38.3	(7.4)
Micro-ducts and mini-cables system integration method	45.3	56.6	(11.3)
Overall	35.6	51.0	(15.4)

The gross profit margin of construction contracts of deployment services of optical fibers using traditional deployment methods decreased from approximately 38.3% in the nine months ended 30 September 2012 to approximately 30.9% in the nine months ended 30 September 2013. It was mainly due to the expansion of new business in Sichuan Province, Chongqing and Guizhou Province in which the gross profit margin was lower than the projects in Hebei Province in order to increase the market share of Sichuan Province, Chongqing and Guizhou Province and general decrease of gross profit margin of construction contract revenue by using traditional deployment methods.

The gross profit margin of construction contracts of deployment services of optical fibers using micro-ducts and mini-cables system integration methods decreased from approximately 56.6% in nine months ended 30 September 2012 to approximately 45.3% in nine months ended 30 September 2013. The decrease was primarily attributable to the fact that in last corresponding year, there were more complex projects generating relatively higher gross profit margin, in particular the projects in Chengde, Hengshui and Handan of Hebei Province, the gross profit margin of these projects was approximately 70.0%.

Major customers and service network

Based in Hebei Province, the Group principally provides one-stop optical fiber deployment solutions for telecommunication operators in northern China. Our major customers include China Mobile Communications Corporation (“China Mobile”), a major telecommunication operator in China, and other regional telecommunication operators. As the Group maintains a favourable position in terms of resource in the industry of both micro-ducts and mini-cables system deployment technology, we obtain our contracts of that kind mainly through negotiated tender, while for traditional deployment business we mainly compete for contracts through open tender.

As of 30 September 2013, the Group’s service network, including Beijing, Chongqing, Hebei Province, Shandong Province, Shaanxi Province, Hunan Province, Jiangxi Province, Liaoning Province, the Inner Mongolia Autonomous Region, Anhui Province, Henan Province, Sichuan Province and Guizhou Province.

Contract progress

Depending on the complexity of projects, the construction period for deployment of optical fibers varies between approximately seven to nine months.

	As of 30 September 2013			
	Number of projects	Total signed contract value (RMB'000)	Recognised revenue (RMB'000)	Backlog amount (RMB'000)
Micro-ducts and mini-cables system integration method	36	94,121	31,752	62,369
Projects in progress	28	80,514	31,752	48,762
Projects to commence	8	13,607	—	13,607
Traditional deployment method	153	134,288	56,519	77,769
Projects in progress	123	116,284	56,519	59,765
Projects to commence	30	18,004	—	18,004
Total	189	228,409	88,271	140,138

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 private and public institutions in different industries. In the nine months ended 30 September 2013, mainly due to keen competition of the market, revenue from the low-voltage equipment integration service decreased by 17.1% to RMB12,151,000 from RMB21,761,000 in the nine months ended 30 September 2012.

Prospects and future plans

With Hebei Province being our base, the Group is gradually expanding its business to the southern region of the Yangtze River as planned to actively explore new markets. On 2 May 2013 and 15 May 2013, we announced to acquire 51% issued capital of each of Hunan San Cheng and Chongqing Wuyang at a cash consideration of RMB2,510,000 and RMB12,250,000 respectively. Such acquisitions not only help the Group enter into the related markets and expand its customer base, but also enhance the business and relation networks of the Group and increase revenue contribution to the Group. Chongqing Wuyang was awarded the Grade B Enterprise Qualification Certificate of Integrated Telecommunication and Information Network Systems by the MIIT and has won a number of tenders for optical fiber deployment projects in Chongqing. Currently, the awareness of micro-ducts and mini-cables system integration technology is relatively low in the new markets such as Sichuan Province, Guizhou Province, Chongqing and Hunan Province and most of our optical fiber deployment projects are using the traditional deployment method which has a lower profit margin. However, leveraging our successful experience in the markets such as Beijing, Hebei Province and Liaoning Province, the Group is actively approaching the local government authorities in the abovementioned new markets to accelerate the process of obtaining the rights in using public sewer systems to introduce the micro-ducts and mini-cables system technology to such new markets. Looking forward, we will continue to pursue our plans of entering into the major markets in southern China like Guangzhou and Shenzhen by way of submitting tenders, mergers and acquisitions or cooperation with local enterprises engaging in the optical fiber deployment business to further penetrate into the southern China market.

Premier Li Keqiang said in an executive meeting of the State Council held on 12 July 2013 that the government would boost information technology consumption, launch the “broadband China” strategy and accelerate the construction and upgrade of network and telecommunication infrastructure with a target of achieving an annual growth rate of over 20% in information technology consumption in the later three years of the “12th Five Year Plan” period, i.e. between 2016 and 2018. Meanwhile, the general expansion of coverage of 3G networks and government’s striving to grant 4G licenses by the end of 2013 have also been put on the agenda. It is believed that telecommunication operators will continue to make investments in construction and upgrade of information and mobile telecommunication networks in the future. As optical fiber cables are the backbone of connecting mobile telecommunication base stations, and broadband/telecommunication networks, deployment services of optical fibers are always required by telecommunication operators no matter for their base station construction, network construction or later stage maintenance. Accordingly, the Group believes that the rapid development of telecommunication and information technology will continue to bring forth considerable development opportunities to us and the Group will grow further under such favourable business environment.

FINANCIAL REVIEW

	For the nine months ended 30 September		
	2013 RMB'000	2012 RMB'000	% Increase (Decrease)
Revenue	179,435	127,506	40.6
Gross Profit	65,629	60,112	9.2
Profit for the period attributable to the equity holders of the Company	27,136	29,524	(8.1)
Net profit margin	15.6%	23.2%	(7.6) percent point
Basic earnings per share (cents)	1.6	2.1	(23.8)
		As at 30 September 2013	As at 31 December 2012
Current ratio		2.5	2.7
Gearing ratio		0.2	0.2

Revenue

The Group's turnover for the nine months ended 30 September of 2013 was approximately RMB179,435,000, representing an increase of approximately 40.7% over the corresponding period of the previous financial year. The increase in the Group's turnover was mainly due to increase of construction contract revenue of deployment services of optical fibers.

The following table sets out the breakdown of our Group's revenue during the periods indicated:

	For the nine months ended 30 September		
	2013 RMB'000	2012 RMB'000	Increase (Decrease) %
Deployment services of optical fibers			
Construction contract revenue			
– Traditional deployment methods	109,708	30,521	259.5
– Micro-ducts and mini-cables system integration methods	52,729	69,779	(24.4)
Sub-total	162,437	100,300	62.0
Others			
– Services income	4,198	4,478	(6.3)
– Sales of goods	601	919	(34.6)
– Rental income	48	48	—
Sub-total	167,284	105,745	58.2
Low-voltage equipment integration services	12,151	21,761	(44.2)
Total	179,435	127,506	40.7

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 RMB162,437,000 and RMB100,300,000, representing approximately 90.5% and 78.7% of the total revenue of the Group for the nine months ended 30 September 2013 and 2012, respectively. The increase in construction revenue for the nine months ended 30 September 2013 as compared to the same period in 2012 was mainly due to the increase in the revenue derived from the provision of deployment services of optical fibers in Sichuan Province and Guizhou Province as a result of geographical expansion of our business.

Others

The Group's revenue from others for the nine months ended 30 September 2013 was RMB4,847,000, representing 2.7% of total revenue. Revenue from others decreased was mainly due to decrease in service income and sales of goods.

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 equipment and accessories to our clients, which include financial institutions, governmental departments, public facilities, road and transportation companies, and state-owned and private companies, was approximately RMB12,151,000, representing approximately 6.8% of our total revenue for the nine months ended 30 September 2013.

Cost of Sales

The Group's cost of sales for the period ended 30 September 2013 was approximately RMB113,806,000, representing an increase of approximately 68.9% over the corresponding period of the previous year. The increase in the Group's cost of sales was mainly due to increase of construction revenue of deployment services of optical fiber.

Gross profit

The following table sets forth the gross profit of each of our services for the periods indicated:

	For the nine months ended 30 September			
	2013 RMB'000	%	2012 RMB'000	%
Gross profit by services				
Construction contract revenue				
– Traditional deployment methods	33,899	51.7	11,684	19.4
– Micro-ducts and mini-cables system integration methods	23,888	36.4	39,503	65.7
Sub-total	57,787	88.1	51,187	85.1
Others				
– Services income	1,628	2.5	1,965	3.3
– Sales of goods	296	0.4	434	0.7
– Rental income	25	—	25	—
Low-voltage equipment integration services	5,893	9.0	6,501	10.9
	65,629	100.0	60,112	100.0

The following table sets forth the gross profit margin of each of our services for the periods indicated:

	For the nine months ended 30 September		
	2013 RMB'000	2012 RMB'000	Increase (Decrease) percent point
Gross profit margin by services			
Construction contract revenue			
– Traditional deployment methods	30.9	38.3	(7.4)
– Micro-ducts and mini-cables system integration methods	45.3	56.6	(11.3)
Overall	35.6	51.0	(15.4)
Others			
– Services income	38.8	43.9	(5.1)
– Sales of goods	49.3	47.2	2.1
– Rental income	52.1	52.1	—
Low-voltage equipment integration services	48.5	29.9	18.6
Total gross profit margin	36.6	47.1	(10.5)

There was a decrease in overall gross profit margin for the nine months ended 30 September 2013 when compared with the corresponding period of the previous financial year.

The decrease in our gross profit margin from approximately 47.1% for the nine months ended 30 September 2012 to approximately 36.6% for the nine months ended 30 September 2013 was primarily due to the decrease in gross profit margin of construction contract revenue in relation to deployment of optical fibers from approximately 51.0% in nine months ended 30 September 2012 to approximately 35.6% in nine months ended 30 September 2013 and the gross profit of which accounted for approximately 88.1% and 85.1% of total gross profit in nine months ended 30 September 2013 and nine months ended 30 September 2012, respectively. In general, the gross profit margin of construction contract varies with difficulties and complexities of each project.

The gross profit margin of construction contracts of deployment services of optical fibers using traditional deployment methods decreased from approximately 38.3% in nine months ended 30 September 2012 to approximately 30.9% in nine months ended 30 September 2013. It was mainly due to the expansion of new business in Sichuan Province and Guizhou Province in which the gross profit margin was lower than projects in Hebei Province in order to increase the market share of Sichuan Province and Guizhou Province and general decrease of gross profit margin of construction contract revenue by using traditional deployment methods.

The gross profit margin of construction contracts of deployment services of optical fibers using micro-ducts and mini-cables system integration methods decreased from approximately 56.6% in nine months ended 30 September 2012 to approximately 45.3% in nine months ended 30 September 2013. The decrease was primarily attributable to the fact that in last corresponding year, there were more complex projects generating relatively higher gross profit margin, in particular the projects in Chengde, Hengshui and Handan of Hebei Province and gross profit margin of these projects was approximately 70.0%.

The gross profit margin of services income decreased from approximately 43.9% in nine months ended 30 September 2012 to approximately 38.8% in nine months ended 30 September 2013. Such decrease was mainly attributable to the increase in average cost of maintenance services during the period.

The gross profit margin of sales of goods increased from approximately 47.2% in nine months ended 30 September 2012 to approximately 49.3% in nine months ended 30 September 2013. 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 increased from approximately 29.9% in nine months ended 30 September 2012 to approximately 48.5% in nine months ended 30 September 2013. Such increase was mainly attributable to the lower cost of sales/services during the period.

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 loss, impairment loss recognized for trade receivables and change in carrying amount of other borrowings.

Marketing and distribution expenses and administrative expenses

The Group's marketing and distribution expenses and administrative expenses for the nine months ended 30 September 2013 were approximately RMB29,491,000, representing an increase of approximately RMB13,290,000 from approximately RMB16,201,000 for the corresponding period of the previous year. The increase was mainly because of expansion of business of the Group and two new subsidiaries were acquired during the nine months ended 30 September 2013..

Finance cost

Finance cost included interest charged from bank and other borrowings. The finance cost increased by RMB3,144,000 which was mainly due to the average principal of bank and other borrowings was higher in nine months ended 30 September 2013.

Profit attributable to equity holders of the Company

The Group recorded net profit attributable to equity holders of the Company of approximately RMB27,136,000 for the nine months ended 30 September 2013 compared to approximately RMB29,524,000 for the corresponding period in 2012, representing a decrease of approximately 8.1%. The decrease of profit attributable to equity holders was mainly due to the fact that despite the increase in gross profit of approximately RMB5,517,000, it was offset by the increase in marketing and distribution expenses and administration expenses of an aggregate amount of approximately RMB13,290,000 and increase of finance costs by RMB3,144,000.

Trade and bill receivables

There was an decrease in trade and bills receivables as at 30 September 2013 of approximately RMB1,982,000 as compared to 31 December 2012 which was mainly due to the net effect of the settlement from customers, new trade receivables provided by the Group during the nine months ended 30 September 2013 and acquisition of subsidiaries during the period.

Amount due from customers for contract works

The amount due from customers for contract works as at 30 September 2013 was increased by approximately RMB106,400,000 as compared to 31 December 2012 which was mainly due to the net effect of the settlement from customers and great increase in revenue arising from the nine months ended 30 September 2013 (such revenue generated had not been certified by the customers or the underlying construction had not been completed as at 30 September 2013). Since most of the revenue for nine months ended 30 September 2013 was mainly arising from the construction revenue from projects in progress as at 30 September 2013 and revenue generated had not been certified by customers, and the Group acquired subsidiaries during the period, the amount due from customers for contract works increased accordingly.

Bank and other borrowings

The Group had bank and other borrowings as at 30 September 2013 amounted to RMB33,261,000 and RMB29,660,000 respectively. No financial instruments were used for hedging purposes.

Liquidity and financial resources

As at 30 September 2013, the Group had current assets of approximately RMB464,171,000 (31 December 2012: RMB393,549,000) which comprised cash and cash equivalents amounted to approximately RMB61,658,000 as at 30 September 2013 (31 December 2012: RMB130,300,000). As at 30 September 2013, the Group had non-current liabilities and current liabilities amounted to approximately RMB13,023,000 and RMB185,938,000 (31 December 2012: RMB4,113,000 and RMB147,168,000), mainly consisting of trade and other payables and, 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 2.5 as at 30 September 2013 (31 December 2012: 2.7).

The Group finances its operation primarily with the use of internally-generated cashflows and banking facilities.

Gearing ratio

The gearing ratio of the Group, calculated as total borrowings over shareholders' fund, was approximately 0.2 as at 30 September 2013 (31 December 2012: approximately 0.2).

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 of Directors (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

For the nine months ended 30 September 2013, we had partial bank balances and other payables which are denominated in foreign currencies and consequently we have foreign exchange risk exposure from translation of amount denominated in foreign currencies as at the report date. During the nine months ended 30 September 2013, 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 the listing date. The capital of the Company mainly comprises ordinary shares and capital reserves.

During the nine months ended 30 September 2013, the Company granted 8,400,000 share options to an eligible participant. For further details, please refer to the section headed “Other Information – Share Option Schemes” and Note 17 to the condensed consolidated financial statements.

During the nine months ended 30 September 2013, the Company issued an unsecured bond to an independent third party with a face value HK\$10 million (approximately RMB7.96 million). For further details, please refer to Note 16 to the condensed consolidated financial statements.

Capital commitments

As at 30 September 2013, the Group had no material capital commitments (31 December 2012: RMB1,600,000).

Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2013 (2012: Nil).

Information on employees

As at 30 September 2013, the Group had 418 employees (31 December 2012: 248), including the executive Directors. Total staff costs (including Directors’ emoluments) were approximately RMB17,191,000 for the nine months ended 30 September 2013 as compared to approximately RMB12,348,000 for the nine months ended 30 September 2012. Remuneration is determined with reference to market norms and individual employees’ performance, qualification and experience.

On top of basic salaries, bonuses will be paid with 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 authorities as well as share options.

Significant investments held

Except for investment in subsidiaries, during the nine months ended 30 September 2013, the Group did not hold any significant investment in equity interest in any company.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the Company's prospectus dated 6 June 2012 (the "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 nine months ended 30 September 2013, the Group acquired two telecommunication construction companies which became our subsidiaries. The details of the acquisition are disclosed in announcements dated on 2 May 2013 and 15 May 2013.

Charges on assets

As at 30 September 2013, the Group had pledged bank deposit and trade receivables with carrying amount of RMB38,460,000 and RMB22,452,000 to secure the bank and other borrowings (31 December 2012: RMB20,271,000 and RMB16,137,000).

Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2013 (31 December 2012: Nil).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2013

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Revenue	3	51,595	45,460	179,435	127,506
Cost of sales/services		(36,096)	(27,718)	(113,806)	(67,394)
Gross profit		15,499	17,742	65,629	60,112
Other income		87	109	1,348	247
Other gains and losses	4	(239)	(12)	(1,794)	1,307
Marketing and distribution expenses		(1,801)	(1,367)	(4,923)	(4,054)
Administrative expenses		(9,572)	(5,502)	(24,568)	(12,147)
Listing expenses		—	—	—	(10,411)
Finance costs	5	(1,469)	(579)	(4,450)	(1,306)
Profit before taxation	6	2,505	10,391	31,242	33,748
Income tax expense	7	(343)	(1,518)	(3,225)	(4,224)
Profit and total comprehensive income for the period		<u>2,162</u>	<u>8,873</u>	<u>28,017</u>	<u>29,524</u>
Profit and total comprehensive income for the period attributable to:					
Equity holders of the Company		2,209	8,873	27,136	29,524
Non-controlling interests		(47)	—	881	—
		<u>2,162</u>	<u>8,873</u>	<u>28,017</u>	<u>29,524</u>
		RMB	RMB	RMB	RMB
Earnings per share	9				
Basic (cents)		0.1	0.5	1.6	2.1
Diluted (cents)		0.1	0.5	1.6	2.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment	10	18,880	12,157
Goodwill	11	37,148	30,099
Intangible assets		153	93
Trade receivables	12	16,492	16,492
Deferred tax assets		995	106
Deposits paid for acquisition of property, plant and equipment		—	1,034
		<u>73,668</u>	<u>59,981</u>
Current assets			
Inventories		3,236	3,128
Trade receivables	12	86,937	88,919
Other receivables, deposits and prepayments		26,155	10,912
Amounts due from customers for contract work	13	246,145	139,745
Amounts due from related parties	18 (b)	1,580	—
Restricted bank deposits		38,460	20,545
Bank balances and cash		61,658	130,300
		<u>464,171</u>	<u>393,549</u>
Current liabilities			
Trade and other payables	14	102,792	75,449
Amounts due to related parties	18 (c)	8,640	1,900
Bank and other borrowings	15	62,921	59,703
Provision		160	112
Income tax payables		11,425	10,004
		<u>185,938</u>	<u>147,168</u>

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Net current assets	278,233	246,381
Total assets less current liabilities	351,901	306,362
Non-current liabilities		
Bond	7,929	—
Deferred tax liabilities	5,094	4,113
	13,023	4,113
Net assets	338,878	302,249
Capital and reserves		
Share capital	136,982	136,982
Reserves	193,605	165,267
Equity attributable to owners of the Company	330,587	302,249
Non-controlling interests	8,291	—
Total equity	338,878	302,249

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital RMB'000	Capital Reserve RMB'000	Share option reserves RMB'000	Statutory surplus reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the nine months ended 30 September 2013 (unaudited)								
Balance at 1 January 2013	136,982	28,142	1,394	26,460	109,271	302,249	—	302,249
Profit and total comprehensive income for the period	—	—	—	—	27,136	27,136	881	28,017
Recognition of equity-settled share-based payment (Note 17)	—	—	1,202	—	—	1,202	—	1,202
Acquisition of subsidiaries (Note 19)	—	—	—	—	—	—	7,410	7,410
At 30 September 2013	<u>136,982</u>	<u>28,142</u>	<u>2,596</u>	<u>26,460</u>	<u>136,407</u>	<u>330,587</u>	<u>8,291</u>	<u>338,878</u>

	Attributable to equity holders of the Company									
	Issued equity		Share Premium	Capital reserves	Share option reserve	Statutory surplus reserve	Accumulated profits	Total	Non-controlling interests	Total equity
	Share capital RMB'000	Other reserves RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the nine months ended 30 September 2012 (unaudited)										
Balance at 1 January 2012	—	—	47,004	(4,858)	—	9,347	60,676	112,169	—	112,169
Profit and total comprehensive income for the period	—	—	—	—	—	—	29,524	29,524	—	29,524
Capital contribution by equity participants (Note (a))	—	—	—	20,000	—	—	—	20,000	—	20,000
Issue of shares pursuant to the placing of shares	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	102,783	—	(102,783)	—	—	—	—	—	—	—
Grant of share options	—	—	—	—	1,394	—	—	1,394	—	1,394
At 30 September 2012	<u>136,982</u>	<u>—</u>	<u>18,000</u>	<u>15,142</u>	<u>1,394</u>	<u>9,347</u>	<u>90,200</u>	<u>271,065</u>	<u>—</u>	<u>271,065</u>

Note:

- (a) In accordance with the Articles of Association of subsidiaries established in the People's Republic of China (the "PRC") now comprising the Group, these entities are required to transfer 10% of the profit after taxation determined in accordance with the generally accepted accounting principles in the PRC 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the nine months ended 30 September	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(60,855)	(28,950)
Net cash used in investing activities	(21,383)	(354)
Net cash generated from financing activities	13,596	114,090
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(68,642)	84,786
Cash and cash equivalents at 1 January	130,300	43,800
	<hr/>	<hr/>
Cash and cash equivalents at 30 September, represented by bank balances and cash	61,658	128,586
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) and with International Accounting Standard 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the nine months ended 30 September 2013 are the same as those followed in the preparation of the Company and its subsidiaries’ (the “Group”) annual financial statements for the year ended 31 December 2012 except as described below.

In the current interim period, the Group has applied, for the first time, certain new or revised International Financial Reporting Standards (“IFRSs”) that are mandatorily effective for the current interim period. Pursuant to the amendment to IAS 1 *Presentation of items of Other Comprehensive Income*, the title of “condensed consolidated statement of other comprehensive income” is changed to “condensed consolidated statement of profit and loss and other comprehensive income”. The application of other new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Mr. Jiang Changqing, an executive director, and the ultimate controlling party of the Group, is the chief operating decision maker. 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.

An analysis of the Group’s revenue for each reporting period is as follows:

Revenue from major products and services

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Deployment services of optical fibers				
– sales of goods	7	300	601	919
– provision of services	46,915	35,360	162,437	100,300
Low-voltage equipment integration services	2,284	7,560	12,151	21,761
Pipeline maintenance service	2,373	2,224	4,198	4,478
Rental income	16	16	48	48
	<u>51,595</u>	<u>45,460</u>	<u>179,435</u>	<u>127,506</u>

Geographical disclosures

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

The Group's revenue generated from external customers located in PRC.

4. OTHER GAINS AND LOSSES

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Other gains (losses) comprise:				
Net foreign exchange (loss) gain	(239)	(12)	(1,001)	18
Recovery of other receivables	—	—	—	12
Impairment loss recognised on trade receivables	—	—	(1,580)	—
Fair value adjustment on initial recognition of other borrowings	—	—	—	1,277
Change in carrying amount of other borrowings resulting from the extension of maturity (Note 15)	—	—	787	—
	<u>(239)</u>	<u>(12)</u>	<u>(1,794)</u>	<u>1,307</u>

5. FINANCE COSTS

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Imputed interest expenses on other borrowings	198	523	928	907
Interest on other borrowings	551	24	1,480	71
Interest on bank borrowings wholly repayable within five years	633	32	1,955	328
Interest on bond	87	—	87	—
	<u>1,469</u>	<u>579</u>	<u>4,450</u>	<u>1,306</u>

6. PROFIT BEFORE TAXATION

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Profit before taxation has been arrived at after charging:				
Depreciation of property, plant and equipment	753	425	2,078	1,059
Amortisation of intangible assets	12	2	20	6
Research expenses	536	69	1,670	500
	<u>536</u>	<u>69</u>	<u>1,670</u>	<u>500</u>

7. INCOME TAX EXPENSE

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Current tax:				
PRC enterprise income tax	210	1,254	2,812	3,345
Deferred tax:				
Current year	12	(13)	(445)	(114)
Withholding tax	121	277	858	993
	133	264	413	879
	343	1,518	3,225	4,224

8. DIVIDENDS

No dividends have been paid, declared or proposed during the current and prior interim period.

The directors of the Company (“Directors”) do not recommend the payment of an interim dividend.

9. EARNINGS PER SHARE

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Earnings				
Earnings for the purpose of basic and diluted earnings per share	2,209	8,873	27,136	29,524

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 '000	2012 '000	2013 '000	2012 '000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,680,000</u>	<u>1,680,000</u>	<u>1,680,000</u>	<u>1,432,308</u>
Effect of dilutive potential ordinary shares arising from issue of share options by the Company	<u>2,200</u>	<u>812</u>	<u>2,523</u>	<u>812</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,682,200</u>	<u>1,680,812</u>	<u>1,682,523</u>	<u>1,433,120</u>

For the reporting periods ended 30 September 2012, the calculations of basic earnings per share are based on 1,260,000,000 shares in issue on the assumption that the Group reorganisation, except for the acquisition of Shijiazhuang Qiushi, and capitalisation issue as disclosed in the section of “History, development and reorganisation – Reorganisation” and “Statutory and general information” in the prospectus issued by the Company dated 6 June 2012 respectively had been completed on 1 January 2012.

No diluted earnings per share are presented for the period ended 30 September 2012 as there was no potential ordinary shares outstanding during that period.

10. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2013, the Group acquired property, plant and equipment amounting to approximately RMB8,339,000 (nine months ended 30 September 2012: RMB5,484,000), including an amount of RMB1,034,000 (nine months ended 30 September 2012: RMBNil) transferred from deposits paid for acquisition of property, plant and equipment.

11. GOODWILL

Goodwill has been allocated to the following groups of cash-generated units:

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Deployment services of optical fibers (Note 19)	7,049	—
Low-voltage equipment integration services	<u>30,099</u>	<u>30,099</u>
	<u>37,148</u>	<u>30,099</u>

12. TRADE RECEIVABLES

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Trade receivables	88,699	89,101
Less: Allowance for impairment of receivables	<u>(1,762)</u>	<u>(182)</u>
	86,937	88,919
Trade receivables – non-current portion	<u>16,492</u>	<u>16,492</u>
	<u>103,429</u>	<u>105,411</u>

Included in the Group's trade receivables is a balance with amount of RMB26,303,000, which is repayable by annual 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 has been recognised at initial recognition. Details of this receivable outstanding at 30 September 2013 are as follows:

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Receivable:		
Within one year	3,943	3,119
In two to five years	13,252	13,252
Over five years	3,240	3,240
	20,435	19,611
Less: amount receivable within one year	(3,943)	(3,119)
Amount receivable after one year	16,492	16,492

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

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

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Within 90 days	31,618	77,718
91 to 180 days	535	784
181 to 365 days	41,106	2,913
1 to 2 years	7,843	4,292
2 to 3 years	1,894	93
	82,994	85,800
Trade receivable repayable by installments	20,435	19,611
Total trade receivables	103,429	105,411

As at 30 September 2013, retentions held by customers for contract works included in trade receivables amounted to approximately RMB5,425,000 (31 December 2012: RMB6,925,000).

13. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

Amounts due from customers for contract work represents contracts in progress at the end of the reporting period. There is a substantial increase in the amounts due from customers for contract work as of 30 September 2013 comparing to 31 December 2012 because most projects commenced in the current interim period are not completed or the projects are not certified by customers.

14. TRADE AND OTHER PAYABLES

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Trade payables	75,993	54,323
Other payables	10,687	4,993
Other tax payables	9,887	7,728
Accrued payroll	6,225	8,405
	<u>102,792</u>	<u>75,449</u>

The following is an aged analysis of trade payables by invoice date at the end of the reporting period:

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Within 90 days	26,308	37,453
91 to 180 days	29,695	6,357
181 to 365 days	16,212	6,829
1 to 2 years	3,358	3,684
2 to 3 years	420	—
	<u>75,993</u>	<u>54,323</u>

15. BANK AND OTHER BORROWINGS

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Secured bank borrowings	30,261	26,184
Other borrowings – interest bearing	20,000	15,000
Other borrowings – interest free	12,660	18,519
	62,921	59,703

As at 30 September 2013, all the secured bank borrowings are carried at floating rate, secured by a charge over certain of the Group's trade receivables and repayable within one year from the end of the reporting period and are denominated in RMB.

As at 30 September 2013, the interest bearing other borrowings of RMB20,000,000 (31 December 2012: RMB15,000,000) represent the advances from independent third parties which carried a fixed interest ranged from 9.6% to 11.0% (31 December 2012: 9.6% to 12%) per annum. These borrowings are repayable within one year from the date of drawdown. The other borrowings are denominated in RMB.

During the current interim period, the Group made certain repayments to an independent third party, with principal amounts of RMB6,000,000 in aggregate and other borrowings amounting to RMB13,000,000 was extended with terms and conditions remained unchanged at the date of maturity, which is unsecured and repayable one year from the respective date of extension. The change in carrying amount of other borrowings resulting from extension of maturity amounting to RMB787,000 was credited as other gains. The imputed interest of these interest free borrowings which amounted to RMB928,000 (nine months ended 30 September 2012: RMB481,000) was recognised as finance costs for the nine months ended 30 September 2013.

16. UNSECURED BOND

On 26 July 2013, the Company issued a bond of a face value of HK\$10 million (approximately RMB7.96 million) to an independent third party. The bond is unsecured with a maturity period of 2 years and carried a fixed coupon rate of 6% where interest is to be payable annually.

17. 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 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 current period.

	Date of grant	Exercise period	Exercise price HK\$	Number of Options ('000)			
				Outstanding at 1 January 2013	Granted during the period	Exercised during the period	Outstanding at 30 June 2013
Share option	14.8.2012	15.8.2012 to 14.8.2022	0.65	6,720	—	—	6,720
Share option	3.6.2013	4.6.2013 to 3.6.2018	0.82	—	8,400	—	8,400

On 3 June 2013, the Group granted share options to an eligible participant (the "Grantee") to subscribe for a total of 8,400,000 ordinary shares of HK\$0.82 per share under the Scheme, subject to acceptance of the Grantee. Such options vested on the grant date and the fair value of the options determined at the date of grant using the Binomial model was HK\$1,510,000 (approximately RMB1,202,000).

The closing price of the Group's share immediately before 3 June 2013, the date of grant, was HK\$0.82 per share.

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

Share price (HK\$)	0.82
Exercise price (HK\$)	0.82
Assumed time to maturity	2.5 years
Risk-free interest rate	0.30%
Annualised volatility	38%
Expected dividend yield	1.51%

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.

18. RELATED PARTY BALANCES AND TRANSACTIONS

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

Name of related party	Relationship
Xianghong Communication Equipment Co. Ltd. (“Xianghong”)	Controlled by Mr. Zeng Hong
Mr. Liu Zhiyong	Non-controlling shareholder of a subsidiary
Mr. Liu Zhao	Non-controlling shareholder of a subsidiary
Mr. Zeng Hong	Non-controlling shareholder of a subsidiary
Mr. Li Qingli	Shareholder and director of the Company

- (b) At 30 September 2013 and 31 December 2012, the Group has amounts receivable from the following related parties and the details are set out below:

Name of related party	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Non-trade nature		
Xianghong	393	—
Mr. Liu Zhiyong	1,141	—
Mr. Liu Zhao	46	—
	<u>1,580</u>	<u>—</u>

The non-trade amounts at 30 September 2013 were unsecured, repayable on demand and interest-free.

- (c) At 30 September 2013 and 31 December 2012, the Group has amounts payable to the following related parties and the details are set out below:

Name of related party	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Non-trade nature		
Mr. Zeng Hong	—	—
Mr. Liu Zhiyong	8,640	—
Mr. Li Qingli	—	1,900
	<u>8,640</u>	<u>1,900</u>

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

- (d) The remuneration paid and payable to the key management of the Company who are also the directors for the nine months ended 30 September 2013 was amounted to RMB885,000 (nine months ended 30 September 2012: RMB416,000).

19. ACQUISITION OF SUBSIDIARIES

On 2 May 2013, the Group acquired 51% equity interest in 湖南三成通信建設有限公司 (Hunan San Cheng Communication Construction Co. Ltd) (“Hunan San Cheng”) for a cash consideration of RMB2,510,000. Hunan San Cheng is principally engaged in communication construction and sale of communication equipment.

On 15 May 2013, the Group acquired 51% equity interest in 重慶五洋通信技術有限公司 (Chongqing Wuyang Communication Technology Co. Ltd) (“Chongqing Wuyang”) for a combined consideration of cash of RMB12,250,000 and contingent consideration based on Chongqing Wuyang’s profit guarantee provided by the vendor, an independent third party prior to the completion of the acquisition of Chongqing Wuyang.

In accordance with the signed agreement, the vendor of Chongqing Wuyang agreed to commit to the following profit guarantee: (1) The audited net profit of Chongqing Wuyang for the year ending 31 December 2013 (calculated on yearly basis according to the IFRSs) would not be less than RMB10,000,000; (2) The compound growth rate of the audited net profit of Chongqing Wuyang for the year ending 31 December 2014 and 2015 (calculated on yearly basis according to the IFRSs) would not be less than 20%. If Chongqing Wuyang fails to achieve the profit guarantee stated in (1) and (2), the vendor undertakes to pay the Group 51% of any profit guarantee shortfall.

Consideration transferred

	Hunan San Cheng	Chongqing Wuyang	Total
	RMB'000	RMB'000	RMB'000
Cash consideration paid	—	2,500	2,500
Consideration payables (included in amounts due to related parties)	2,510	9,750	12,260
Fair value of profit guarantee (provisional value)	—	—	—
	<u>2,510</u>	<u>12,250</u>	<u>14,760</u>

Acquisition-related costs have been excluded from the cost of acquisition and have been recognised as administrative expenses in condensed consolidated statement of profit or loss and other comprehensive income in current period.

The allocation of the purchase price to the identifiable assets and liabilities being acquired in these business combinations are currently being determined and has not been completed due to the complexity involved in identifying and valuing the underlying assets. In addition, the fair value of the contingent consideration in respect of acquisition of Chongqing Wuyang has been estimated on a provisional basis and subject to finalisation of the valuation report. In the meantime, the provisional goodwill in an aggregate amount of RMB7,049,000 had been recognised.

The provisional values of the assets and liabilities of Hunan San Cheng and Chongqing Wuyang at the date of acquisition are as follows:

	Hunan San Cheng	Chongqing Wuyang	Total
	RMB'000	RMB'000	RMB'000
Current assets			
Cash and cash equivalents	250	3,188	3,438
Trade and other receivables	538	23,939	24,477
Amounts due from a related party	3,955	—	3,955
Amounts due from customers for contract work	2,222	31,719	33,941
Non-current assets			
Property, plant and equipment	164	300	464
Backlog	—	80	80
Deferred tax assets	—	443	443
Current liabilities			
Trade and other payables	(2,490)	(46,379)	(48,869)
Amounts due to related parties	(235)	(479)	(714)
Income tax payables	—	(1,971)	(1,971)
Non-current liabilities			
Deferred tax liabilities	(123)	—	(123)
Net assets	<u>4,281</u>	<u>10,840</u>	<u>15,121</u>

The trade and other receivables and amounts due from related parties acquired at the date of acquisition with a fair value of RMB28,717,000 had gross contractual amounts of RMB30,571,000. The best estimate at acquisition dates of the cash flows not expected to be collected is RMB1,854,000.

Non-controlling interests

The non-controlling interest (49%) in Hunan San Cheng and Chongqing Wuyang recognised at the acquisition date was measured based on the proportionate share of the acquirees' net identifiable assets determined on a provisional basis which amounted to approximately RMB2,098,000 and approximately RMB5,312,000 respectively.

Goodwill arising on acquisition (determined on a provisional basis)

	Hunan San Cheng	Chongqing Wuyang	Total
	RMB'000	RMB'000	RMB'000
Consideration	2,510	12,250	14,760
Plus: non-controlling interests	2,098	5,312	7,410
Less: net assets acquired	<u>(4,281)</u>	<u>(10,840)</u>	<u>(15,121)</u>
Goodwill arising on acquisition	<u>327</u>	<u>6,722</u>	<u>7,049</u>

Goodwill arose on the acquisition of Hunan San Cheng and Chongqing Wuyang is attributable to its anticipated profitability and enhances the Group's competitiveness in Hunan and Chongqing and will promote the Group's micro-ducts and mini-cable system integration methods for optical fibers deployment projects in the PRC.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	Hunan San Cheng	Chongqing Wuyang	Total
	RMB'000	RMB'000	RMB'000
Consideration paid in cash	—	2,500	2,500
Less: cash and cash equivalent balances acquired	<u>(250)</u>	<u>(3,188)</u>	<u>(3,438)</u>
	<u>(250)</u>	<u>(688)</u>	<u>(938)</u>

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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 condensed consolidated statement of financial position approximate their respective fair values at the end of each reporting period.

21. CAPITAL COMMITMENTS

	As at 30 September 2013 RMB'000 (unaudited)	As at 31 December 2012 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>—</u>	<u>1,600</u>

OTHER INFORMATION

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 30 September 2013. Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the content requires otherwise.

Business plan as set out in the Prospectus	Actual business progress up to 30 September 2013
1. Further strengthening our deployment services of optical fibers in the PRC	
(i) Investment in equipment	The Group has purchased various equipment, spare parts of equipment and motor vehicles for construction projects.
(ii) Market expansion	The Group has built three experimental sections and purchased motor vehicles for marketing purposes. In addition, the Group has established one representative office in Hebei Province.
(iii) Securing strategic assets/rights	The Group has continued to communicate with relevant governmental department of some provinces in the PRC.
(iv) Acquisition	The Group completed two acquisitions which are located in Hunan Province and Chongqing.
(v) Human resources	The Group has employed additional technical and management staff 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 the application 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 staff to strengthen sales and marketing network. The Group has purchased motor vehicles for marketing purpose. 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 30 September 2013 had been applied as follows:

	Use of proceeds from the Listing Date to period ending 30 September 2013 as shown in the Prospectus HK\$ (million)	Actual use of proceeds from the Listing Date to 30 September 2013 HK\$ (million)
1. Further strengthening our deployment services of optical fibers in the PRC		
(i) Investment in equipment	16.42	1.30
(ii) Market expansion	13.06	5.00
(iii) Securing strategic assets/rights	19.76	–
(iv) Acquisition	12.20	9.10
(v) Human resources	2.00	2.00
(vi) Research and development	1.90	1.90
Sub-total	65.34	19.30
2. Expanding our business of low-voltage equipment integration services in the PRC		
(i) Sales and marketing	1.80	0.80
3. Repayment of bank and other borrowings	14.30	11.60
4. General working capital (Note)	8.40	8.40
Total	89.84	40.10

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

The future plans and prospects as stated in the Prospectus were derived from the Group's reasonable estimation of the future market conditions based on the information available at the time of preparing the Prospectus. As of the date of this report, the Directors are not aware of material change to the planned use of the proceeds from the plan as stated in the Prospectus.

SHARE OPTION SCHEMES

The Company has adopted a share option scheme (the “Share Option Scheme”) on 27 May 2012. The principal terms of the two schemes were summarised in the sections headed “Other information – Share Option Scheme” in Appendix IV to the Prospectus.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution or future contribution to the Group.

Movements of the options, which have been granted under the Share Option Scheme, during the nine months ended 30 September 2013, are set out below:

Category of Participants	Number of share options						Date of grant	Closing price		Option Exercisable and vesting period
	Outstanding as at 1 January 2013	Granted during the period	Reclassified during the period	Exercised during the period	Forfeited during the period	Outstanding as at 30 June 2013		as at date of grant	Exercise price	
								HK\$	HK\$	
Employee (Note) (Other than the directors, chief executives and substantial shareholders)	6,720,000	-	-	-	-	6,720,000	14.08.2012	0.65	0.65	15.08.2012 – 14.08.2022
	-	8,400,000	-	-	-	8,400,000	03.06.2013	0.82	0.82	04.06.2013- 03.06.2018
	<u>6,720,000</u>	<u>8,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,120,000</u>				

Note: The employee works under employment contracts that is regard as “continuous contracts” for the purpose of the employment ordinance.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

The Company's shares were listed on GEM of the Stock Exchange on 12 June 2012. As at 30 September 2013, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be 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 securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Company

Name of Director	Name of Group member/ associated corporation	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Jiang Changqing	Our Company	Interest of a controlled corporation (Note 2)	1,017,605,000 Shares (L)	60.57%
	Bright Warm Limited	Beneficial owner	1 share (L)	100%
Ms. Guo Aru	Our Company	Family (Note 3)	1,017,605,000 Shares (L)	60.57%
	Bright Warm Limited	Family (Note 3)	1 share (L)	100%
Mr. Li Qingli	Our Company	Interest of a controlled corporation (Note 4)	151,000,000 Shares (L)	8.99%

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 Mr. Jiang Changqing, one of the controlling shareholders of our Company and an executive Director.
3. Ms. Guo Aru is the spouse of Mr. Jiang Changqing. Therefore, Ms. Guo Aru is deemed to be interested in the 1,017,605,000 Shares owned by Mr. Jiang Changqing in the Company and 1 share owned by Mr. 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 Mr. Li Qingli, one of the substantial shareholders of our Company and an executive Director.

Save as disclosed above, as at 30 September 2013, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be 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 securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2013, 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	1,017,605,000 Shares (L)	60.57%
Ordillia Group Limited (Note 3)	Our Company	Beneficial owner	151,000,000 Shares (L)	8.99%
Ms. Ren Yanping	Our Company	Family (Note 4)	151,000,000 Shares (L)	8.99%

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 Changqing, one of the controlling shareholders of our Company and an executive Director. Therefore, Mr. Jiang Changqing is also deemed to be interested in the 1,017,605,000 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 Mr. Li Qingli, one of the substantial shareholders of our Company and an executive Director. Therefore, Mr. Li Qingli is also deemed to be interested in the 151,000,000 Shares owned by Ordillia by virtue of the SFO.
4. Ms. Ren Yanping is the spouse of Mr. Li Qingli. Therefore, Ms. Ren Yanping is deemed to be interested in the 151,000,000 Shares owned by Mr. Li Qingli by virtue of the SFO.

Save as disclosed above, as at 30 September 2013, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company’s shares were listed on GEM of the Stock Exchange on 12 June 2012. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the nine months ended 30 September 2013, except as disclosed in the Prospectus.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Guotai Junan Capital Limited (“Guotai Junan”), the compliance adviser of the Company, neither Guotai Junan 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 30 September 2013, except as disclosed in the Prospectus.

Guotai Junan will receive fees for acting as the compliance adviser of the Company.

COMPETING INTERESTS

Save and except for interests in the Group, none of the Directors and controlling shareholders of the Company nor their respective associates (as defined under the GEM Listing Rules) had any interest in any other companies as at 30 September 2013 which may, directly or indirectly, compete with the Group's business.

CODE OF CONDUCT REGARDING 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 1 January 2013 up to and including 30 September 2013.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules from 1 January 2013 up to and including 30 September 2013, except code provisions A.2.1 as more particularly described below.

Code provision A2.1 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 Changqing to assume both roles as the chief executive officer and executive 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. With the strong business experience of the Directors, they do not expect any issues would arise due to the combined role of Mr. Jiang Changqing. 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.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C3.3 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of external auditors; review the financial statements and provide material advice in respect of financial reporting; and oversee internal control procedures of the Company. The audit committee comprises three independent non-executive Directors, namely Ms. Li Xiaohui (chairman of the audit committee), Mr. Meng Fanlin and Mr. Wang Haiyu.

The unaudited condensed consolidated results of the Group for the nine months ended 30 September 2013 have not been audited by the Company's auditors, but have been reviewed by the audit committee in accordance with Rule 5.30 of the GEM Listing Rules and who is of the opinion that the financial statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

By order of the Board
China U-Ton Holdings Limited
Jiang Changqing
Chairman and Executive Director

Hong Kong, 13 November 2013

As at the date of this report, the executive Directors are Mr. Jiang Changqing, Ms. Guo Aru and Mr. Li Qingli, the independent non-executive Directors are Mr. Meng Fanlin, Mr. Wang Haiyu and Ms. Li Xiaohui.