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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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

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Highlights

- The Company reported a profit attributable to the equity holders of the Company of RMB29,524,000 for the nine months ended 30 September 2012, an increase of 27.6% when compared with the corresponding period of the previous financial year
- The Group's revenue was approximately RMB127,506,000 for the nine months ended 30 September 2012, an increase of 39.6% when compared with the corresponding period of the previous financial year
- Gross margin for the nine months ended 30 September 2012 was approximately 47.1%, which translates into gross profit of approximately RMB60,112,000
- Earnings per share for the nine months ended 30 September 2012 was RMB2.1 cents and an increase of RMB0.2 cents compared to RMB1.9 cents for the corresponding period of the previous financial year
- The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2012

| | Nine months ended | |
|---|--------------------------|----------|
| | 30 September | |
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Revenue | 127,506 | 91,345 |
| Cost of sales/services | (67,394) | (53,604) |
| Gross profit | 60,112 | 37,741 |
| Other income | 247 | 110 |
| Other gains and losses | 1,307 | 6,862 |
| Marketing and distribution expenses | (4,054) | (3,378) |
| Administration expenses | (12,147) | (7,127) |
| Listing expenses | (10,411) | (6,765) |
| Finance costs | (1,306) | (1,364) |
| Profit before taxation | 33,748 | 26,079 |
| Income tax expense | (4,224) | (1,477) |
| Profit and total comprehensive income for the period | 29,524 | 24,602 |
| Profit for the period attributable to non-controlling interests | – | (1,457) |
| Profit for the period attributable to the equity holders of the Company | 29,524 | 23,145 |

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Company reported its unaudited results for the nine months ended 30 September 2012 with a profit attributable to the equity holders of the Company of approximately RMB29,524,000, representing an increase of 27.6% over the corresponding period of the previous financial year. If profit excluded listing expenses and non-recurrent other gains and losses, our profits attributable to the equity holders of the Company for the nine months ended 30 September 2012 was RMB38,628,000 (2011: RMB23,048,000), an increase of 67.6%. Our gross profit increased by approximately 59.3% to RMB60,112,000. The Group's turnover for the nine months ended 30 September 2012 increased by 39.6% to approximately RMB127,506,000 which reflects the Group's ability in riding successfully on the favourable trend established in the previous financial year, seizing business opportunities in the optical fibers and equipment integration services market in China as well as improving the Group's core revenues and operating profitability.

BUSINESS REVIEW

The Group is principally engaged in the provision of deployment services of optical fibers in the PRC. It is the Group's strategy to become a significant optical fiber deployment service provider for telecommunication operators in the PRC by (1) further strengthening our deployment services of optical fibers in the PRC and (2) expanding our business of low-voltage equipment integration services in the PRC.

January–September 2012 Performance

For the nine-month period ended 30 September 2012, we recorded revenue of approximately RMB127,506,000, representing an increase of 39.6%, gross profit of approximately RMB60,112,000, representing an increase of 59.3%, and profits attributable to the equity holders of our Group of approximately RMB29,524,000, representing an increase of 27.6%, over the corresponding period ended 30 September of 2011.

The growth of revenue and gross profit was mainly contributed by the satisfactory performance of construction contract revenue, especially from construction projects located in Beijing, Shenyang of Liaoning Province and Hebei Province's Zhangjiakou, Chengde and Hengshui.

July–September 2012 Performance

As for the three-month period ended 30 September 2012, we recorded revenue of approximately RMB45,460,000, representing an increase of 52.1%, gross profit of approximately RMB17,742,000, representing an increase of 25.1%, and profits attributable to the equity holders of our Group of approximately RMB8,873,000, representing an increase of 143.5%, over the corresponding period ended 30 September of 2011.

The growth of revenue and gross profit was mainly contributed by the satisfactory performance of construction revenue, especially of construction projects located in Hebei Province's Zhangjiakou and Shenyang of Liaoning Province.

Deployment projects of optical fibers

During the nine-month period ended 30 September 2012, the Group achieved steady growth of business development of construction projects located in Beijing, Shenyang of Liaoning Province and Hebei Province's Chengde, Hengshui and Zhangjiakou. Key projects located in above cities/districts used micro ducts and mini-cables system integration methods, and most of those projects were almost completed and most of the revenue had been recognised, thus gross profit margin improved accordingly. As at 30 September 2012, the Group has projects in progress with total backlog which amounted to approximately RMB25,729,000 and projects to be commenced with total contractual amounts of approximately RMB50,690,000 of which projects were mainly located in Hebei Province.

The following table sets out the details of projects in progress and projects to be commenced regarding deployment projects of optical fibers as at 30 September 2012:

| | Recognised revenue as at 30 September 2012 (Note 2) (RMB'000) | Total contractual amount for the projects as at 30 September 2012 (Note 3) (RMB'000) | Backlog amount for the projects as at 30 September 2012 (Note 4) (RMB'000) |
|-----------------------------------|---|--|---|
| Projects in progress (Note 1) | 61,920 | 87,649 | 25,729 |
| Projects to be commenced (Note 5) | N/A | 50,690 | N/A |

Notes:

1. Projects in progress referred to projects for which we have recognised part but not all of the revenue for accounting purposes as at 30 September 2012. The portion of contract value for projects in progress which has not been realised is deemed as part of our backlog.
2. Recognised revenue referred to the revenue recognised from the date of commencement of projects to 30 September 2012.
3. Total contractual amount referred to the contractual amount as stipulated in the optical fibers deployment project contracts. For contracts where no contractual amount was stated, the contractual amount equals to the revenue recognised from the date of commencement of projects to 30 September 2012.
4. Backlog amount for the projects referred to the difference between the total contractual amount of projects and their recognised revenue from the date of commencement of projects to 30 September 2012.
5. Projects to be commenced referred to projects for which have been secured by us but have not commenced works and no revenue has been recognised as at 30 September 2012.

Low voltage equipment integration services

During the nine-month period ended 30 September 2012, the Group achieved steady growth of business development of low voltage equipment integration services mainly arising from public facilities projects and property related projects. As at 30 September 2012, the Group have projects in progress with total backlog amount of approximately RMB6,057,000. Customers of those projects are mainly property companies and governmental departments.

The following table sets out the details of projects in progress regarding low voltage equipment integration services as at 30 September 2012:

| | Recognised revenue as at 30 September 2012 (Note 2) (RMB'000) | Total contractual amount for the projects as at 30 September 2012 (RMB'000) | Backlog amount for the projects as at 30 September 2012 (Note 3) (RMB'000) |
|-------------------------------|---|---|---|
| Projects in progress (Note 1) | 7,922 | 13,979 | 6,057 |

Notes:

1. Project in progress referred to projects for which we have completed part of the works as stipulated in the contracts, but not all of the revenue is recognised for accounting purposes.
2. Recognised revenue referred to the revenue recognised from the date of commencement of projects to 30 September 2012.
3. Backlog amount for the projects referred to the difference between the total contractual amount of projects and their recognised revenue from the date of commencement of projects to 30 September 2012.

FUTURE PROSPECTS

Both deployment market of optical fibers and market for low-voltage equipment integration in China are growing steadily. According to the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), the level of urbanisation in China, which is expressed in the ratio of municipal population to total population in China, is expected to exceed 50% at the end of 2015 resulting in greater opportunities for the growth of deployment market of optical fibers in China. The three-network integration and continuous capital expenditure investments by China Telecom Operators provide more business opportunities. In addition, the 12th Five-Year Plan for Construction Industry (建築業發展「十二五」規劃) issued by Ministry of Housing and Urban-Rural Development (中華人民共和國住房和城鄉建設部) has focused on the development of high and new technologies and the PRC Government has formulated relevant development planning on intelligent buildings. This national policy is expected to drive ample business opportunities for low-voltage equipment integration companies in the PRC. Thus, we are optimistic about the future prospect of our business. We would execute our business plan throughout our business strategies and our competitive strengths in order to achieve steady growth in profitability, explore more strategic geographical regions for our long term business development and increase the shareholders' value.

FINANCIAL REVIEW

| | Nine months ended 30 September 2012 (in RMB'000) | Nine months ended 30 September 2011 (in RMB'000) | % Increase |
|---|---|--|------------|
| Revenue | 127,506 | 91,345 | 39.6 |
| Gross Profit | 60,112 | 37,741 | 59.3 |
| Profit for the period attributable to the equity holders of the Company | 29,524 | 23,145 | 27.6 |
| Adjusted profit for the period attributable to the equity holders of the Company (Note) | 38,628 | 23,048 | 67.6 |

Note: Adjusted profit for the period attributable to the equity holders of the Company being profit attributable to the equity holders of the Company excluding listing expenses and whole amount of non-recurrent other gains and losses.

Revenue

The Group's turnover for the nine months ended 30 September of 2012 was approximately RMB127,506,000, representing an increase of approximately 39.6% 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 and income from low-voltage equipment integration services.

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

| | Three months ended | | Nine months ended | |
|---|--------------------|---------|-------------------|---------|
| | 30 September | | 30 September | |
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deployment services of optical fibers | | | | |
| – Construction contract revenue | | | | |
| – Traditional deployment methods | 8,464 | 10,206 | 30,521 | 30,587 |
| – Micro-ducts and mini-cables system integration methods (Note 1) | 26,896 | 13,626 | 69,779 | 42,656 |
| Sub-total | 35,360 | 23,832 | 100,300 | 73,243 |
| Others | | | | |
| – Services income | 2,224 | 1,293 | 4,478 | 3,644 |
| – Sales of goods | 300 | 1,122 | 919 | 1,924 |
| – Rental income | 16 | 16 | 48 | 48 |
| Sub-total | 37,900 | 26,263 | 105,745 | 78,859 |
| Low-voltage equipment integration services (Note 2) | 7,560 | 3,618 | 21,761 | 12,486 |
| Total | 45,460 | 29,881 | 127,506 | 91,345 |

Notes:

1. The revenue represented the revenue generated from the deployment services of optical fibers which involve the application of micro-ducts and mini-cables system integration methods.
2. The revenue represented the revenue of Shijiazhuang Qiushi from 1 March 2011 (date of acquisition).

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 RMB100,300,000 and RMB73,243,000, representing approximately 78.7% and 80.2% of the total revenue of the Group for the nine months ended 30 September 2012 and 2011, respectively. The increase in construction revenue for the nine months ended 30 September 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, Hebei Province's Hengshui, Chengde and Zhangjiakou as a result of geographical expansion of our business.

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

| | Three months ended 30 September | | | | Nine months ended 30 September | | | |
|-------------------------------------|---------------------------------|-------|-----------------|-------|--------------------------------|-------|-----------------|-------|
| | 2012 RMB'000 | % | 2011 RMB'000 | % | 2012 RMB'000 | % | 2011 RMB'000 | % |
| Hebei Province | 25,656 | 72.6 | 18,898 | 79.3 | 78,355 | 78.1 | 64,504 | 88.1 |
| Outside Hebei Province | 9,704 | 27.4 | 4,934 | 20.7 | 21,945 | 21.9 | 8,739 | 11.9 |
| Total construction contract revenue | 35,360 | 100.0 | 23,832 | 100.0 | 100,300 | 100.0 | 73,243 | 100.0 |

Services income

The services income, representing the income generated from our provision of the maintenance services in respect of optical fiber networks to the telecommunication operators in the PRC irrespective of whether or not the deployment works thereof are carried out by us, was approximately RMB4,478,000 and RMB3,644,000, representing approximately 3.5% and 4.0% of the total revenue of our Group for the nine months ended 30 September 2012 and 2011, respectively. Our maintenance services mainly cover regular inspection of the deployed cables, repair and re-connection of optical fibers and testing of the signal transmission. There was slightly increase in services income for the nine months ended 30 September 2012 as compared to the same period in 2011.

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 RMB919,000 and RMB1,924,000, representing approximately 0.7% and 2.1% of the total revenue of the Group for the nine months ended 30 September 2012 and 2011, respectively.

The decrease in sales of goods for the nine months ended 30 September 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, was approximately RMB48,000 and RMB48,000 for the nine months ended 30 September 2012 and 2011, respectively. There was no change in rental income for the nine months ended 30 September 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 RMB21,761,000, representing approximately 17.1% of our total revenue for the nine months ended 30 September 2012. Given that we acquired Shijiazhuang Qiushi on 1 March 2011, the income from low-voltage equipment integration services was approximately RMB12,486,000, representing approximately 13.7% of our total revenue for the period from 1 March 2011 to 30 September 2011.

Gross profit

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

| | Three months ended | | Nine months ended | |
|---|--------------------|---------------|-------------------|---------------|
| | 30 September | | 30 September | |
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Gross profit by services | | | | |
| Construction contract revenue | | | | |
| – Traditional deployment methods | 3,000 | 4,337 | 11,684 | 12,125 |
| – Micro-ducts and mini-cables system integration methods | 11,362 | 6,846 | 39,503 | 21,146 |
| Sub-total | 14,362 | 11,183 | 51,187 | 33,271 |
| Services income | 919 | 447 | 1,965 | 1,805 |
| Sales of goods | 153 | 556 | 434 | 697 |
| Rental income | 7 | 7 | 25 | 25 |
| Low-voltage equipment integration services | 2,301 | 1,984 | 6,501 | 1,943 |
| | <u>17,742</u> | <u>14,177</u> | <u>60,112</u> | <u>37,741</u> |

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

| | Three months ended | | Nine months ended | |
|---|--------------------|-------------|-------------------|-------------|
| | 30 September | | 30 September | |
| | 2012 | 2011 | 2012 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Gross profit margin by services | | | | |
| Construction contract revenue | | | | |
| – Traditional deployment methods | 35.4 | 42.5 | 38.3 | 39.6 |
| – Micro-ducts and mini-cables system integration methods | 42.2 | 50.2 | 56.6 | 49.6 |
| Sub-total of construction contract revenue | 40.6 | 46.9 | 51.0 | 45.4 |
| Services income | 41.3 | 34.6 | 43.9 | 49.5 |
| Sales of goods | 51.0 | 49.6 | 47.2 | 36.2 |
| Rental income | 43.8 | 43.8 | 52.1 | 52.1 |
| Low-voltage equipment integration services | 30.4 | 54.8 | 29.9 | 15.6 |
| Total gross profit margin | <u>39.0</u> | <u>47.4</u> | <u>47.1</u> | <u>41.3</u> |

The increase in our gross profit margin from approximately 41.3% for the nine months ended 30 September 2011 to approximately 47.1% for the nine months ended 30 September 2012 was primarily due to the increase in gross profit margin of construction contract revenue in relation to deployment of optical fibers from approximately 45.4% in nine months ended 30 September 2011 to approximately 51.0% in nine months ended 30 September 2012 and the gross profit of which accounted for approximately 85.2% and 88.2% of total gross profit in nine months ended 30 September 2012 and nine months ended 30 September 2011, respectively.

The gross profit margin of construction contracts of deployment services of optical fibers using traditional deployment methods decreased slightly from approximately 39.6% in nine months ended 30 September 2011 to approximately 38.3% in nine months ended 30 September 2012.

The gross profit margin of construction contracts of deployment services of optical fibers using micro-ducts and mini-cables system integration methods increased from approximately 49.6% in nine months ended 30 September 2011 to approximately 56.6% in nine months ended 30 September 2012. The increase was primarily attributable to the fact that there were more complex projects generating relatively higher gross profit margin in particular the projects in Hebei province's Chengde, Hengshui and Shenyang of Liaoning province. Most of those projects were almost completed and most of the revenue had been recognised in nine months ended 30 September 2012.

The gross profit margin of services income decrease from approximately 49.5% in nine months ended 30 September 2011 to approximately 43.9% in nine months ended 30 September 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 approximately 36.2% in nine months ended 30 September 2011 to approximately 47.2% in nine months ended 30 September 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 increase from approximately 15.6% in nine months ended 30 September 2011 to approximately 29.9% in nine months ended 30 September 2012. Such increase was mainly attributable to the lower cost of sales/services during the current 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 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 nine months period ended 30 September 2011, there was a gain on discharge of obligations under convertible loans which amounted to approximately RMB6,352,000 but there was no such gain in nine months period ended 30 September 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 nine months ended 30 September 2012 were approximately RMB16,201,000, representing an increase of approximately 54.2% from approximately RMB10,505,000 for the corresponding period of the previous year. The increase was mainly because of expansion of business of the Group.

Finance cost

Finance cost included interest charged from bank and other borrowings. The finance cost decreased was mainly due to the average principal of bank and other borrowings was lower in nine months ended 30 September 2012. In addition, there was a termination of convertible loans in June 2011 and no new convertible loans had been issued subsequently.

Profit attributable to equity holders of the Company

The Group recorded net profit attributable to equity holders of the Company of approximately RMB29,524,000 for the nine months ended 30 September 2012 compared to approximately RMB23,145,000 for the corresponding period in 2011, representing an increase of approximately 27.6%. The increase of profit attributable to equity holders was mainly due to the fact that the effect of the increase in gross profit of approximately RMB22,371,000 outweighed the effect on, increase in marketing and distribution expenses and administration expenses of an aggregate amount of approximately RMB5,696,000, increase in listing expenses of approximately RMB3,646,000 and decrease in other gains of approximately RMB5,555,000.

Trade and bill receivables

There was a decrease in trade and bills receivables as at 30 September 2012 of approximately RMB15,922,000 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 nine months ended 30 September 2012.

Amount due from customers for contract works

There was an increase in amount due from customers for contract works as at 30 September 2012 of approximately RMB63,021,000 as compared to 31 December 2011 which was mainly due to net effect of the settlement from customers and increase in revenue arising from the nine months ended 30 September 2012 (such revenue generated had not been certified by the customers or underlying construction had not been completed as at 30 September 2012). Since most of the revenue for nine months ended 30 September 2012 was mainly arising from the construction revenue from projects in progress as at 30 September 2012 and revenue generated had not been certified by customers, amount due from customers for contract works increased greatly.

Bank and other borrowings

The Group had bank and other borrowings as at 30 September 2012 in the sum of RMB27,013,000. Bank borrowings as at 30 September 2012 amounted to an aggregate of RMB13,444,000 which comprised of the following: (1) RMB8,444,000 are made from Bank in the PRC in RMB at floating interest rates of 5.6% per annum and will be due on March 2013; (2) RMB5,000,000 from Bank in the PRC in RMB at floating interest rates of 7.2% per annum and RMB2,000,000 will be due on July 2013 and RMB3,000,000 will be on September 2013. Other borrowings as at 30 September 2012 amounted to an aggregate of RMB13,569,000 which comprised of the following: (1) RMB12,628,000 with principal amount of RMB13,000,000, which was interest free, unsecured and will be repayable on March 2013; (2) RMB941,000 with principal amount of HK\$1,150,000, which is unsecured, carried fixed interest of 10% per annum and repayable on November 2012. No financial instruments were used for hedging purposes.

Liquidity and financial resources

As at 30 September 2012, the Group had current assets of approximately RMB330,963,000 (31 December 2011: RMB184,451,000) which comprised cash and cash equivalents in RMB128,586,000 as at 30 September 2012 (31 December 2011: RMB43,800,000). As at 30 September 2012, the Group had non-current liabilities, and its current liabilities amounted to approximately RMB3,190,000 and RMB100,130,000 (31 December 2011: RMB2,197,000 and RMB108,809,000, consisting mainly of payables arising in the normal course of operation). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 3.3 as at 30 September 2012 (31 December 2011: 1.7).

The Group finances its operation primarily with the use of internally-generated cashflows, banking facilities and maintains a strong cash position to meet potential needs for business expansion and development.

Gearing ratio

The gearing ratio of the Group, calculated as total borrowings over shareholders' fund, was approximately 0.1 as at 30 September 2012 (31 December 2011: approximately 0.1).

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

For the nine months ended 30 September 2012, we had partial bank balances, other payables and other borrowings 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 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 the Listing Date. The capital of the Company mainly comprises ordinary shares and capital reserves.

Capital commitments

As at 30 September 2012, the Group had no capital commitments (31 December 2011: RMB83,000).

Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2012 (2011: Nil).

Information on employees

As at 30 September 2012, the Group had 222 employees (31 December 2011: 193), including the executive Directors. Total staff costs (including Directors' emoluments) were approximately RMB12,348,000 for the nine months ended 30 September 2012 as compared to approximately RMB10,148,000 for the nine months ended 30 September 2011. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

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

Significant investments held

Except for investment in subsidiaries, during the nine months ended 30 September 2012, 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, 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 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies save as disclosed in the prospectus.

Charges on assets

As at 30 September 2012, the Group had pledged trade receivables with carrying amount of RMB10,587,000 to secure the bank borrowings (31 December 2011: RMB6,195,000).

Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2012 (31 December 2011: Nil).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2012

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|---|-------|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) |
| Revenue | 3 | 45,460 | 29,881 | 127,506 | 91,345 |
| Cost of sales/services | | (27,718) | (15,704) | (67,394) | (53,604) |
| Gross profit | | 17,742 | 14,177 | 60,112 | 37,741 |
| Other income | | 109 | 35 | 247 | 110 |
| Other gains and losses | 4 | (12) | (937) | 1,307 | 6,862 |
| Marketing and distribution expenses | | (1,367) | (2,321) | (4,054) | (3,378) |
| Administrative expenses | | (5,502) | (2,634) | (12,147) | (7,127) |
| Listing expenses | | — | (4,096) | (10,411) | (6,765) |
| Finance costs | 5 | (579) | (342) | (1,306) | (1,364) |
| Profit before taxation | 6 | 10,391 | 3,882 | 33,748 | 26,079 |
| Income tax expense | 7 | (1,518) | (238) | (4,224) | (1,477) |
| Profit and total comprehensive income for the period | | <u>8,873</u> | <u>3,644</u> | <u>29,524</u> | <u>24,602</u> |
| Profit and total comprehensive (expense) income for the period attributable to: | | | | | |
| Equity holders of the Company | | 8,873 | 3,644 | 29,524 | 23,145 |
| Non-controlling interests | | — | — | — | 1,457 |
| | | <u>8,873</u> | <u>3,644</u> | <u>29,524</u> | <u>24,602</u> |
| | | RMB | RMB | RMB | RMB |
| Earnings per share | 9 | | | | |
| Basic (cents) | | <u>0.5</u> | <u>0.3</u> | <u>2.1</u> | <u>1.9</u> |
| Diluted (cents) | | <u>0.5</u> | <u>N/A</u> | <u>2.1</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2012

| | Notes | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 RMB'000 |
|---|-------|--|--------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 10,803 | 6,451 |
| Goodwill | | 30,099 | 30,099 |
| Intangible assets | | 46 | 11 |
| Deferred tax assets | | 2,206 | 2,092 |
| Deposits paid for acquisition of property, plant and equipment | | 268 | 71 |
| | | <u>43,422</u> | <u>38,724</u> |
| Current assets | | | |
| Inventories | | 6,875 | 2,846 |
| Trade and bill receivables | 11 | 50,394 | 66,316 |
| Other receivables, deposits and prepayments | | 18,333 | 2,682 |
| Amounts due from customers for contract work | 12 | 126,501 | 63,480 |
| Restricted bank deposits | | 274 | 5,327 |
| Bank balances and cash | | 128,586 | 43,800 |
| | | <u>330,963</u> | <u>184,451</u> |
| Current liabilities | | | |
| Trade and other payables | 13 | 64,854 | 61,269 |
| Amounts due to related parties | 16(b) | 4,100 | 39,084 |
| Bank and other borrowings | 14 | 27,013 | 5,888 |
| Provision | | 90 | 60 |
| Income tax payables | | 4,073 | 2,508 |
| | | <u>100,130</u> | <u>108,809</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2012

| | Notes | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 RMB'000 |
|--|-------|--|--------------------------------|
| Net current assets | | <u>230,833</u> | <u>75,642</u> |
| Total assets less current liabilities | | <u>274,255</u> | <u>114,366</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | | <u>3,190</u> | <u>2,197</u> |
| Net assets | | <u>271,065</u> | <u>112,169</u> |
| Capital and reserves | | | |
| Issued equity | 15 | <u>136,982</u> | — |
| Reserves | | <u>134,083</u> | <u>112,169</u> |
| Total equity | | <u>271,065</u> | <u>112,169</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2012

| | Attributable to equity holders of the Company | | | | | | | | | |
|--|---|----------|--------------------------|-----------------------------|--|---|--------------------------------|------------------|--------------------------------------|-------------------------|
| | Issued equity | | Share Premium RMB'000 | Capital reserves RMB'000 | Share option reserve RMB'000 (Note(g)) | Statutory surplus reserve RMB'000 (Note(f)) | Accumulated profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Share capital RMB'000 | Other reserves 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 (Note 15) | 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 15) | 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> |
| For the nine months ended 30 September 2011 (unaudited) | | | | | | | | | | |
| 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 period | — | — | — | — | — | — | 23,145 | 23,145 | 1,457 | 24,602 |
| Acquisition of Hebei Changtong (Note (b)) | — | (10,000) | — | 6,909 | — | — | — | (3,091) | 3,091 | — |
| Acquisition of Shijiazhuang Qiushi (Note (c)) | — | — | — | 28,684 | — | — | — | 28,684 | 3,183 | 31,867 |
| Distribution to equity participants (Note (b)) | — | — | — | (10,000) | — | — | — | (10,000) | — | (10,000) |
| Arising from share swap for equity interest in Partnerfield (Note (d)) | — | (10,000) | — | 10,000 | — | — | — | — | — | — |
| Acquisition of additional interest in Hebei Deer (Note (e)) | — | — | — | 7,177 | — | — | — | 7,177 | (8,975) | (1,798) |
| Balance at 30 September 2011 | <u>—</u> | <u>—</u> | <u>—</u> | <u>42,146</u> | <u>—</u> | <u>3,069</u> | <u>34,718</u> | <u>79,933</u> | <u>—</u> | <u>79,933</u> |

Notes:

- On 4 June 2012, the outstanding amounts due to Mr. Jiang Changqing (“Mr. Jiang”), the chairman and director of the Company, 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.
- 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 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.
- 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.
- On 11 May 2011, Mr. Jiang transferred the 80% equity interest in Partnerfield Investments Limited (“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”, wholly owned by Mr. Li) 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.
- 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.
- 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 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.
- On 14 August 2012, the Company granted a total of 6,720,000 share options.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2012

| | Nine months ended | |
|---|-------------------|---------------|
| | 30 September | |
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Net cash used in operating activities | (28,950) | (15,286) |
| Net cash generated from (used in) investing activities | (354) | 3,403 |
| Net cash generated from (used in) financing activities | 114,090 | (10,547) |
| | <hr/> | <hr/> |
| Net increase (decrease) in cash and cash equivalents | 84,786 | (22,430) |
| Cash and cash equivalents at 1 January | 43,800 | 47,222 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 30 September, represented by bank balances and cash | <u>128,586</u> | <u>24,792</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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”).

In preparation for the listing of the Group’s shares on the GEM of the Hong Kong Stock Exchange (the “Listing”), the Group has undertaken certain reorganisation and restructuring, 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. 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 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011 except as described below.

In the current period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“IFRSs”) that are mandatorily effective for the current period. The application of those amendments to IFRSs in the current 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 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.

Geographical disclosures

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

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|----------|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) |
| The PRC | 45,460 | 29,881 | 127,506 | 91,331 |
| Overseas | — | — | — | 14 |
| | <u>45,460</u> | <u>29,881</u> | <u>127,506</u> | <u>91,345</u> |

4. OTHER GAINS AND LOSSES

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) |
| Other gains (losses) comprise: | | | | |
| Net foreign exchange gain (loss) | (12) | 279 | 18 | 438 |
| Gain on disposal of property, plant and equipment | — | — | — | 6 |
| Gain on discharge of long outstanding payables (Note a) | — | — | — | 6,352 |
| Recovery of other receivables | — | — | 12 | — |
| Fair value adjustment on initial recognition of other borrowings | — | — | 1,277 | 1,282 |
| Impairment loss on doubtful trade receivables | — | (766) | — | (766) |
| Provision of employee injury claims | — | (450) | — | (450) |
| | <u>(12)</u> | <u>(937)</u> | <u>1,307</u> | <u>6,862</u> |

Note a: In June 2011, Partnerfield has entered into agreements with the holders of convertible loans to settle the entire outstanding balances of HK\$15,044,000 (approximately RMB12,522,000). Pursuant to the agreements, the Group agreed to pay HK\$7,420,000 (approximately RMB6,170,000) to the lenders to discharge all obligations of Partnerfield under the convertible loans resulted in a gain of HK\$7,624,000 (approximately RMB6,352,000).

5. FINANCE COSTS

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) |
| Imputed interest expenses on other borrowings | 523 | 323 | 907 | 743 |
| Interest on other borrowings | 24 | — | 71 | 237 |
| Interest on bank borrowings wholly repayable within five years | 32 | 19 | 328 | 384 |
| | <u>579</u> | <u>342</u> | <u>1,306</u> | <u>1,364</u> |

6. PROFIT BEFORE TAXATION

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) |
| Profit before taxation has been arrived at after charging: | | | | |
| Depreciation of property, plant and equipment | 425 | 329 | 1,059 | 796 |
| Amortisation of intangible assets | 2 | — | 6 | 1,532 |
| Research expenses | 69 | 30 | 500 | 109 |
| | <u>496</u> | <u>359</u> | <u>1,565</u> | <u>1,437</u> |

7. INCOME TAX EXPENSE

| | Three months ended 30 September | | Nine months ended 30 September | |
|---------------------------|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) |
| Current tax: | | | | |
| PRC enterprise income tax | 1,254 | 608 | 3,345 | 1,726 |
| Deferred tax: | | | | |
| Current year | (13) | (533) | (114) | (851) |
| Withholding tax | 277 | 163 | 993 | 602 |
| | <u>264</u> | <u>(370)</u> | <u>879</u> | <u>(249)</u> |
| | <u>1,518</u> | <u>238</u> | <u>4,224</u> | <u>1,477</u> |

8. DIVIDENDS

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

The directors of the Company do not recommend the payment of an interim dividend for the nine months ended 30 September 2012.

9. EARNINGS PER SHARE

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) | 2011 RMB'000 (unaudited) |
| Earnings | | | | |
| Profit for the period attributable to equity holders of the Company | <u>8,873</u> | <u>3,644</u> | <u>29,524</u> | <u>23,145</u> |
| | | | | |
| | Three months ended 30 September | | Nine months ended 30 September | |
| | 2012 '000 | 2011 '000 | 2012 '000 | 2011 '000 |
| Number of shares | | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u>1,680,000</u> | 1,260,000 | <u>1,432,308</u> | 1,216,997 |
| Effect of dilutive potential ordinary shares arising from shares options | <u>812</u> | — | <u>812</u> | — |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>1,680,812</u> | <u>1,260,000</u> | <u>1,433,120</u> | <u>1,216,997</u> |

For the respective reporting period, 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 respectively had been completed on 1 January 2011.

10. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2012, the Group acquired property, plant and equipment amounting to approximately RMB5,484,000 (nine months ended 30 September 2011: RMB1,693,000).

11. TRADE AND BILL RECEIVABLES

| | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 RMB'000 |
|---|--|--------------------------------|
| Trade receivables | 50,140 | 62,527 |
| Less: Allowance for impairment of receivables | <u>(207)</u> | <u>(207)</u> |
| | 49,933 | 62,320 |
| Bill receivable | <u>461</u> | <u>3,996</u> |
| | <u>50,394</u> | <u>66,316</u> |

The collection period of the majority of the trade receivables ranges from 30 to 180 days from the invoice date during the 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 and bill receivables by invoice/completion certificate date:

| | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 RMB'000 |
|----------------------------------|--|--------------------------------|
| Within 90 days | 32,674 | 58,699 |
| 91 to 180 days | 4,893 | 2,051 |
| 181 to 365 days | 10,439 | 3,138 |
| 1 to 2 years | 1,594 | 2,186 |
| 2 to 3 years | <u>794</u> | <u>242</u> |
| Total trade and bill receivables | <u>50,394</u> | <u>66,316</u> |

As at 30 September 2012, retentions held by customers for contract works included in trade receivables amounted to approximately RMB910,000 (31 December 2011: RMB2,338,000).

12. 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 2012 comparing to 31 December 2011 because most projects commenced in the current period are not completed or the projects are not certified by the customers.

13. TRADE AND OTHER PAYABLES

| | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 RMB'000 |
|-------------------------|--|--------------------------------|
| Trade and bill payables | 41,302 | 42,309 |
| Other payables | 23,552 | 18,960 |
| | <u>64,854</u> | <u>61,269</u> |

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

| | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 RMB'000 |
|-----------------|--|--------------------------------|
| Within 90 days | 19,710 | 25,791 |
| 91 to 180 days | 9,468 | 5,561 |
| 181 to 365 days | 8,548 | 10,402 |
| 1 to 2 years | 3,542 | 483 |
| 2 to 3 years | — | 47 |
| Over 3 years | 34 | 25 |
| | <u>41,302</u> | <u>42,309</u> |

14. BANK AND OTHER BORROWINGS

| | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 RMB'000 |
|-------------------------------------|--|--------------------------------|
| Secured bank borrowings | 8,444 | 4,956 |
| Unsecured bank borrowings | 5,000 | — |
| Other borrowings - interest bearing | 941 | 932 |
| Other borrowings - interest free | 12,628 | — |
| | <u>27,013</u> | <u>5,888</u> |

As at 30 September 2012, the interest bearing other borrowings represented the advance from an independent third party which carried a fixed interest of 10% per annum (31 December 2011: 10% per annum). This borrowing is unsecured and is repayable one year from the date of drawdown.

The interest free other borrowings at 30 September 2012 is amount due to an independent third parties. The principal amount is approximately RMB13,000,000 is unsecured and repayable one year from the respective date of drawdown. Fair value adjustment at the effective interest rates 6.56% amounting to RMB853,000 was credited as income. The imputed interest of this interest free borrowing which amounted to RMB481,000 was recognised as finance costs for the nine months ended 30 September 2012.

The unsecured bank borrowings amounted to RMB5,000,000 is secured by personal guarantee from Ms. Guo Aru and a property jointly owned by Mr. Jiang Changqing and Ms. Guo Aru.

15. ISSUED EQUITY

The issued equity as at 31 December 2011 and 30 September 2012 represents the share capital of the Company and the details are set out as follows:

| | Number of shares | Share capital | |
|--|----------------------|----------------|----------------|
| | | HK'000 | RMB'000 |
| Authorised | | | |
| 4,000 million ordinary shares of HK\$0.10 each at 30 September 2012 | 4,000,000,000 | 400,000 | 326,088 |
| Issued and fully paid | | | |
| On incorporation | 1 | — | — |
| Issue of shares to initial shareholders | 99 | — | — |
| Issue of shares for the Group reorganisation | 900 | — | — |
| At 30 September 2011, 31 December 2011 and 1 January 2012 | 1,000 | — | — |
| Issue of shares pursuant to the capitalisation issue (Note (a)) | 1,259,999,000 | 126,000 | 102,783 |
| Issue of shares pursuant to the placing (Note (b)) | 420,000,000 | 42,000 | 34,199 |
| At 30 September 2012 | <u>1,680,000,000</u> | <u>168,000</u> | <u>136,982</u> |

Note (a) 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. The Company's shares were listed on GEM of Hong Kong Stock Exchange on 12 June 2012.

Note (b) 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.

16. 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 |
|--|--|
| Hebei Deer 河北乾源通信設備有限公司 ("Hebei Qianyuan") | Significantly influenced by Mr. Li before restructuring 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 | Controlled by Mr. Li |

* Mr. Du Yanhua is a member of Group's key management personnel.

- (b) At 30 September 2012 and 31 December 2011, the Group has amounts payable to the following related parties and the details are set out below:

| Name of related party | 30 September | 31 December |
|------------------------------|---------------------|--------------------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| | (unaudited) | |
| Non-trade nature | | |
| Hebei Ruihui | — | 1,800 |
| Ms. Guo | — | 4,130 |
| Mr. Jiang | — | 16,347 |
| Mr. Li | 4,100 | 8,115 |
| Ms. Ren Yanping | — | 2,603 |
| Ordillia | — | 5,889 |
| Hebei Xinhua | — | 200 |
| | 4,100 | 39,084 |

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

In relation to the non-trade payables to related parties, an amount of RMB19,084,000 was settled during the period and an amount of RMB20,000,000 was waived by the related parties before the Listing.

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

| Name of related party | Nature of transaction | Three months ended 30 September | | Nine months ended 30 September | |
|-----------------------|-----------------------|------------------------------------|------------------------|-----------------------------------|------------------------|
| | | 2012 | 2011 | 2012 | 2011 |
| | | RMB'000 (unaudited) | RMB'000 (unaudited) | RMB'000 (unaudited) | RMB'000 (unaudited) |
| Ms. Guo | Rental expense | — | 5 | — | 24 |
| Hebei Qianyuan | Rental expense | — | 120 | — | 210 |

- (d) The remuneration paid and payable to the key management of the Company who are also the directors of the Company for the current period amounted to RMB525,000 (nine months ended 30 September 2011: RMB281,000).

17. CAPITAL COMMITMENTS

| | 30 September 2012 RMB'000 (unaudited) | 31 December 2011 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 | — | 83 |

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 2012. 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 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 department. |
| (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 30 September 2012 had been applied as follows:

| | Use of proceeds from the Listing Date to period ending 31 December 2012 as shown in the Prospectus HK\$ (million) | Actual use of proceeds from the Listing Date to 30 September 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 | 10.5 |
| 4. General working capital (Note) | 8.4 | — |
| Total | 59.33 | 10.5 |

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 2012 Share Option Scheme, during the nine months ended 30 September 2012, are set out below:

| Category of Participants | Number of share options | | | | | Outstanding at 30 September 2012 | Date of grant of share options | Share price at date of grant of share options HK\$ | Exercise price of share options HK\$ | Exercisable period |
|--|-------------------------------|---------------------------|--------------------------------|-----------------------------|--------------------------|----------------------------------|--------------------------------|---|---|-------------------------|
| | Outstanding at 1 January 2012 | Granted during the period | Reclassified during the period | Exercised during the period | Lapsed during the period | | | | | |
| 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 |

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 2012, 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) | 1,008,000,000 Shares (L) | 60% |
| | Bright Warm Limited | Beneficial owner | 1 share (L) | 100% |
| Ms. Guo Aru | Our Company | Family (Note 3) | 1,008,000,000 Shares (L) | 60% |
| | Bright Warm Limited | Family (Note 3) | 1 share (L) | 100% |
| Mr. Li Qingli | Our Company | Interest of a controlled corporation (Note 4) | 252,000,000 Shares (L) | 15% |

Notes:

- The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.
- The Shares are held by Bright Warm Limited, the entire issued capital of which is beneficially owned by Mr. Jiang, one of the controlling shareholders of our Company and an executive Director.
- Ms. Guo is the spouse of Mr. Jiang. Therefore, Ms. Guo is deemed to be interested in the 1,008,000,000 Shares owned by Mr. Jiang in the Company and 1 share owned by Mr. Jiang in Bright Warm Limited by virtue of the SFO.
- The Shares are held by Ordillia Group Limited, the entire issued capital of which is beneficially owned by Mr. Li, one of the substantial shareholders of our Company and an executive Director.

Save as disclosed above, as at 30 September 2012, 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 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% |
| Ms. Ren Yanping | Our Company | Family (Note 4) | 252,000,000 Shares (L) | 15% |

Notes:

1. The letter "L" denotes the person's long position in the shares of our Company or the relevant Group member.
2. Bright Warm 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, Mr. Jiang is also deemed to be interested in the 1,008,000,000 Shares owned by Bright Warm by virtue of the SFO.
3. Ordillia Group Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Li, one of the substantial shareholders of our Company and an executive Director. Therefore, Mr. Li is also deemed to be interested in the 252,000,000 Shares owned by Ordillia by virtue of the SFO.
4. Ms. Ren is the spouse of Mr. Li. Therefore, Ms. Ren is deemed to be interested in the 252,000,000 Shares owned by Mr. Li by virtue of the SFO.

Save as disclosed above, as at 30 September 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.

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 2012, 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 2012, except as disclosed in this 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 2012 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 the Listing Date up to and including 30 September 2012.

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 the Listing Date up to and including 30 September 2012, except code provisions A1.8 and A.2.1 as more particularly described below.

Code provision A1.8 provides that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Board currently considers that 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. As such, the Company has not arranged insurance cover; however, the Board will continue to review the policy of arranging insurance cover for the directors from time to time and may arrange the insurance cover in the future.

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 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. 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 2012 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, 12 November 2012

As at the date of this announcement, 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.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting. This announcement will also be posted on the website of the Company at www.chinauton.com.