



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: 6168

2014
INTERIM REPORT

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This report, for which the directors (the “Directors”) of China U-Ton Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.

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 (a) in the case of registered shareholders, the Company’s share registrar and transfer office, Tricor Investor Services Limited, at 22/F., Hopewell Centre, 183 Queen’s Road East, 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 RMB29,846,000 for the six months ended 30 June 2014, an increase of RMB4,919,000 when compared with the corresponding period of the previous financial year.
- The Group's revenue was approximately RMB202,465,000 for the six months ended 30 June 2014, an improvement of RMB74,625,000 when compared with the corresponding period of the previous financial year.
- Gross profit margin for the six months ended 30 June 2014 was approximately 33.3% (2013: 39.2%), which translates into gross profit of approximately RMB67,408,000, an increase of RMB17,278,000 when compared with the corresponding period of the previous financial year.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) for the six months ended 30 June 2014 was approximately RMB44,020,000, an increase of RMB10,969,000 when compared with the corresponding period of the previous financial year.
- Earnings per share for the six months ended 30 June 2014 was RMB1.8 cents and increase of RMB0.3 cents compared to RMB1.5 cents for the corresponding period of the previous financial year.
- The Board does not recommend the payment of any interim dividend for the period.
- The backlog amount for the deployment projects of optical fibers as at 30 June 2014 amounted to approximately RMB616,097,000 (30 June 2013: RMB126,717,000).
- The estimated amount for the tender succeeded but the Group has not entered into any contract for the deployment projects of optical fibers as at 30 June 2014 amounted to approximately RMB116,000,000 (30 June 2013: RMB70,000,000).

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Revenue	202,465	127,840
Cost of sales/services	(135,057)	(77,710)
Gross profit	67,408	50,130
Other income	291	1,261
Other gains and losses	1,146	(1,555)
Marketing and distribution expenses	(6,786)	(3,122)
Administration expenses	(19,119)	(13,862)
Research and development cost	(1,043)	(1,134)
Finance costs	(5,157)	(2,981)
Profit before taxation	36,740	28,737
Income tax expense	(4,700)	(2,882)
Profit and total comprehensive income for the period	32,040	25,855
Profit for the period attributable to non-controlling interests	(2,194)	(928)
Profit for the period attributable to the equity holders of the Company	29,846	24,927

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 to the Company (Hong Kong Law)

Li & Partners

Compliance Adviser

Guotai Junan Capital Limited

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Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
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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
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Beijing
China

Principal Share Registrar and Transfer Office

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Clifton House
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Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
22th Floor, Hopwell Centre
183 Queen's Road East
Hong Kong

Place of Listing

The Stock Exchange of Hong Kong Limited

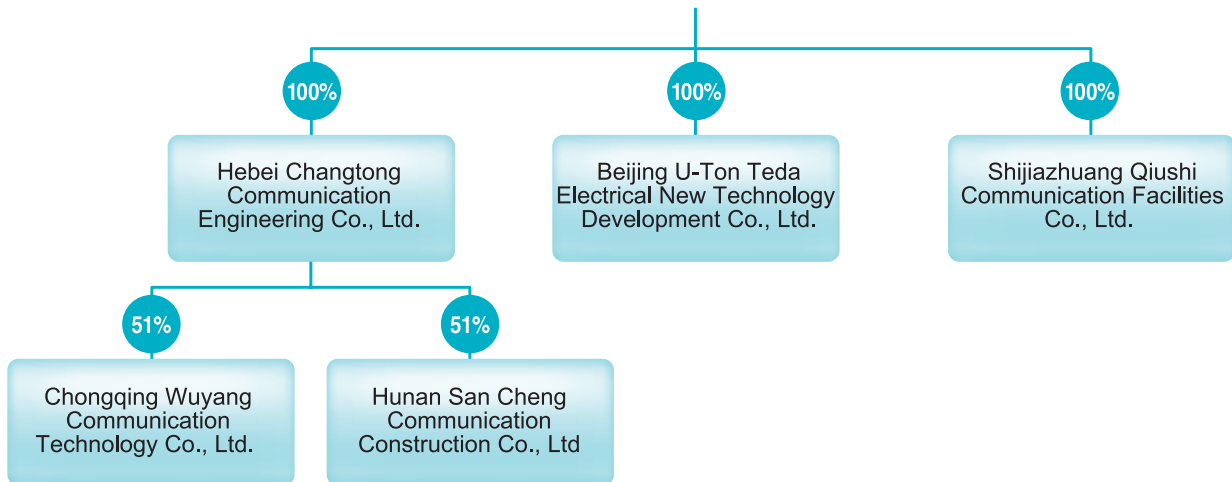
Stock Code

6168

GROUP STRUCTURE OF MAJOR OPERATING SUBSIDIARIES



China U-Ton Holdings Limited
中國優通控股有限公司
(Stock Code: 6168.HK)



MANAGEMENT DISCUSSION AND ANALYSIS

LISTING ON THE STOCK EXCHANGE OF HONG KONG

On 11 April 2014, an application was made by China U-Ton Holdings Limited (the “Company”) to the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the transfer of listing of all the Company’s shares in issue from the Growth Enterprise Market to the Main Board to the Stock Exchange. The Company’s shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014. In connection with the listing on the Stock Exchange of Hong Kong, the Group took important steps to explore business opportunities and build up reputation.

OVERVIEW

The Company reported its unaudited reports for the six months ended 30 June 2014 with a profit attributable to the equity holders of the Company of approximately RMB29,846,000, representing an increase of 19.7% over the corresponding period of the previous financial year. Our gross profit increased by approximately RMB17,278,000 to RMB67,408,000. The Group’s turnover for the six months ended 30 June 2014 increased by 58.4% to approximately RMB202,465,000 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 revenue 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.

Our competitive strengths include (1) the micro-ducts and mini-cable system integration methods which enable us to provide flexible solutions to our clients; and (2) we have registered a number of patents and obtained the rights to use the sewer system in various cities/districts to enhance our business development in telecommunication industry in the PRC.

Deployment projects of optical fibers

During the six months ended 30 June 2014, the Group achieved steady growth of business. The growth of revenue and gross profit was mainly contributed by the satisfactory performance of construction contract revenue, especially from more construction projects located in Hebei Province, and new projects from Hunan Province and Chongqing. As projects located in Hunan Province and Chongqing used traditional deployment methods and the projects during the six months ended 30 June 2014 were less complex, the gross profit margin decreased accordingly. In addition, some of the large construction projects were at early stage as at 30 June 2014 so that criteria for recognition of profits could not be fulfilled at the time of recognition at 30 June 2014 which in turn would have a negative impact of gross profit margin. We expect the gross profit margin for the year ending 31 December 2014 will be improved.

Contract progress

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

The backlog amounts of projects in progress and projects to be commenced regarding deployment projects of optical fibers as at 30 June 2014 totally amounted to approximately RMB616,097,000 (30 June 2013: RMB126,717,000).

	As at 30 June 2014			
	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	30	206,152	46,965	159,187
Projects in progress	25	75,730	46,965	28,765
Projects to commence	5	130,422	—	130,422
Traditional deployment method	201	602,298	145,388	456,910
Projects in progress	173	243,281	145,388	97,893
Projects to commence	28	359,017	—	359,017
Total	231	808,450	192,353	616,097

The estimated amount for the tender succeeded but the Group has not entered into any contract as at 30 June 2014 amounted to RMB116,000,000 (30 June 2013: RMB70,000,000).

Low voltage equipment integration services

During the six months ended 30 June 2014, the slight decrease in revenue was mainly arising from the decrease of construction service of low voltage equipment integration.

FUTURE PLANS AND PROSPECTS

On 7 August 2014, National Development and Reform Commission published a press release with subject “Strengthening innovation in key areas and assisting in maintaining a stable and healthy development of the high-tech industry and strategic emerging industry” (深入推進重點領域創新助力高技術產業和戰略性新興產業平穩健康發展). It mentioned, among others, the speed up of construction of telecommunication infra-structure, execution of strategy of “Broadband China” (寬頻中國), development of technology and verification platform, etc.

The PRC's Broadband China strategy, 4G policies will continue to create good opportunities for the Group's business development. The general expansion of coverage of 3G networks and government's striving to grant 4G licenses have also been planned by PRC Government. It is believed that telecommunication operators will continue to invest 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.

The Group will pay attention to other potential telecommunication business opportunity. More efforts will be made to strengthen internal control and management, strictly control production cost and operating expenses, so as to increase the overall profitability of the Group and maximize the returns for shareholders.

FINANCIAL REVIEW

	Six months ended 30 June		
	2014 RMB'000	2013 RMB'000	Increase (Decrease) %
Revenue	202,465	127,840	58.4
Gross Profit	67,408	50,130	34.5
EBITDA	44,020	33,051	33.2
EBITDA margin %	21.7%	25.9%	(4.2) percent point
Net profit	32,040	25,855	23.9
Profit for the period attributable to the equity holders of the Company	29,846	24,927	19.7
Net profit margin	15.8%	20.2%	(4.4) percent point
Basic earnings per share (cents)	1.8	1.5	0.3
		As at 30 June 2014	As at 31 December 2013
Current ratio		2.4	2.2
Gearing ratio		27.6%	22.7%

Revenue

The Group's turnover for the six months ended 30 June 2014 was approximately RMB202,465,000, representing an increase of approximately 58.4% 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:

	Six months ended 30 June		
	2014 RMB'000	2013 RMB'000	Increase (Decrease) %
Deployment services of optical fibers			
Construction contract revenue			
– Traditional deployment methods	150,920	80,311	87.9
– Micro-ducts and mini-cables system integration methods	24,655	35,211	(30.0)
Sub-total	175,575	115,522	52.0
Others			
– Services income	17,286	1,825	847.2
– Sales of goods	81	594	(86.4)
– Rental income	32	32	—
Sub-total	17,399	2,451	610.0
Low-voltage equipment integration services	9,491	9,867	(3.8)
Total	202,465	127,840	58.4

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 RMB175,575,000 and RMB115,522,000, representing approximately 86.7% and 90.4% of the total revenue of the Group for the six months ended 30 June 2014 and 2013, respectively. The increase in construction revenue for the six months ended 30 June 2014 as compared to the same period in 2013 was mainly due to the increase in the revenue derived from the provision of deployment services of optical fibers in Hebei Province, Hunan Province and Chongqing as a result of geographical expansion of our business.

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

	Six months ended 30 June			
	2014		2013	
	(RMB'000)	%	(RMB'000)	%
Hebei Province	104,590	59.6	47,835	41.5
Beijing	4,092	2.3	1,302	1.1
Liaoning Province	1,736	1.0	9,361	8.1
Sichuan Province	8,998	5.1	42,097	36.4
Guizhou Province	12,484	7.1	11,995	10.4
Chongqing	35,042	20.0	1,523	1.3
Hunan Province	6,037	3.4	933	0.8
Others	2,596	1.5	476	0.4
Total construction contract revenue	<u>175,575</u>	<u>100.0</u>	<u>115,522</u>	<u>100.0</u>

Others

The Group's revenue from others included services income, sales of goods and rental income and contributed RMB17,399,000, represented 8.6% of total revenue. Revenue from others increased was mainly due to the increase in demand of maintenance service.

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 RMB9,491,000, representing approximately 4.7% of our total revenue for the six months ended 30 June 2014.

Cost of Sales

The Group's cost of sales for the period ended 30 June 2014 was approximately RMB135,057,000, representing an increase of approximately 73.8% over the corresponding period of the previous year. The increase in the Group's cost of sales was due to increase of construction revenue of deployment services of optical fibers.

Gross profit

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

	Six months ended 30 June			
	2014 RMB'000	%	2013 RMB'000	%
Gross profit by services				
Construction contract revenue				
– Traditional deployment methods	50,674	75.2	27,041	53.9
– Micro-ducts and mini-cables system integration methods	9,866	14.7	17,411	34.8
Sub-total	60,540	89.9	44,452	88.7
Others				
– Services income	4,333	6.4	195	0.4
– Sales of goods	39	—	292	0.6
– Rental income	18	—	18	—
Low-voltage equipment integration services	2,478	3.7	5,173	10.3
	67,408	100.0	50,130	100.0

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

	Six months ended 30 June		
	2014 RMB'000	2013 RMB'000	Increase (Decrease) percent point
Gross profit margin by services			
Construction contract revenue			
– Traditional deployment methods	33.6	33.7	(0.1)
– Micro-ducts and mini-cables system integration methods	40.0	49.4	(9.4)
Overall	34.5	38.3	(3.8)
Others			
– Services income	25.1	10.7	14.4
– Sales of goods	48.1	49.3	(1.2)
– Rental income	56.3	56.3	—
Low-voltage equipment integration services	26.1	52.4	(26.3)
Total gross profit margin	33.3	39.2	(5.9)

There was a decrease in overall gross profit margin for the six months ended 30 June 2014 when compared with the corresponding period of the previous financial year.

The decrease in our gross profit margin from approximately 39.2% for the six months ended 30 June 2013 to approximately 33.3% for the six months ended 30 June 2014 was primarily due to the decrease in gross profit margin of construction contract revenue in relation to deployment of optical fibers from approximately 38.3% in six months ended 30 June 2013 to approximately 34.5% in six months ended 30 June 2014 and the gross profit of which accounted for approximately 89.9% and 88.7% of total gross profit in six months ended 30 June 2014 and six months ended 30 June 2013, respectively. In general, the gross profit margin of construction contract varies according to the difficulties and complexities of each project.

The gross profit margin of construction contracts of deployment services of optical fibers using traditional deployment methods slightly decreased from approximately 33.7% for the six months ended 30 June 2013 to approximately 33.6% for the six months ended 30 June 2014. It was mainly due to the expansion of new business in Hunan Province and Chongqing in which the gross profit margin was lower than projects in Hebei Province in order to increase the market share of the Group in Hunan Province and Chongqing and the general lower 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 49.4% for the six months ended 30 June 2013 to approximately 40.0% for the six months ended 30 June 2014. 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 Hebei Province.

In addition, some of the large construction projects were at early stage as at 30 June 2014 so that criteria for recognition of profits could not be fulfilled at the time of recognition at 30 June 2014 which in turn would have a negative impact of gross profit margin. We expect the gross profit margin for the year ending 31 December 2014 will be improved.

The gross profit margin of services income increased from approximately 10.7% for the six months ended 30 June 2013 to approximately 25.1% for the six months ended 30 June 2014. Such increase was mainly attributable to the increase in average service charge of maintenance services during the period.

The gross profit margin of sales of goods decreased from approximately 49.3% for the six months ended 30 June 2013 to approximately 48.1% for the six months ended 30 June 2014. Such decreased was mainly attributable to the sales of ancillary products to our clients at relatively lower unit selling price during the period.

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

The gross profit margin of low voltage equipment integration services decreased from approximately 52.4% for the six months ended 30 June 2013 to approximately 26.1% for the six months ended 30 June 2014. Such decrease was mainly attributable to the higher cost of sales/services during the period.

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 which contributed approximately 62% of construction contract revenue, 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 at 30 June 2014, the Group’s service network, included 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, Guizhou Province and Yunnan Province.

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, 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 six months ended 30 June 2014 were approximately RMB25,905,000, representing an increase of approximately RMB8,921,000 from approximately RMB16,984,000 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 increased was mainly due to the average principal of bank and other borrowings was higher for the six months ended 30 June 2014.

Profit attributable to equity holders of the Company

The Group recorded net profit attributable to equity holders of the Company of approximately RMB29,846,000 for the six months ended 30 June 2014 compared to approximately RMB24,927,000 for the corresponding period in 2013, representing an increase of approximately 19.7%. 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 RMB17,278,000 outweighed the effects of the increase in marketing and distribution expenses and administration expenses of an aggregate amount of approximately RMB8,921,000 and increase of finance costs of RMB2,176,000.

Trade and bill receivables

There was an increase in trade and bills receivables as at 30 June 2014 of approximately RMB8,726,000 as compared to 31 December 2013 which was mainly due to the net effect of the settlement from customers, new trade receivables provided by the Group during the six months ended 30 June 2014.

Amount due from customers for contract works

There was an increase in the amount due from customers for contract works as at 30 June 2014 of approximately RMB97,560,000 as compared to 31 December 2013 which was mainly due to the net effect of the settlement from customers and increase in revenue arising from the six months ended 30 June 2014 (such revenue generated had not been certified by the customers or the underlying construction had not been completed as at 30 June 2014). Since most of the revenue for six months ended 30 June 2014 was mainly arising from the construction revenue from projects in progress as at 30 June 2014 and revenue generated had not been certified by customers, the amount due from customers for contract works increased accordingly.

Bank and other borrowings

The Group had bank and other borrowings as at 30 June 2014 amounted to RMB63,970,000 and RMB32,463,000 respectively. No financial instruments were used for hedging purposes. The Group's bank loans were made in Hong Kong dollars, US dollars and Renminbi, whilst approximately 44.2% (31 December 2013: 65.8%) of such bank loans bore interest at fixed lending rate.

Liquidity and financial resources

As at 30 June 2014, the Group had current assets of approximately RMB685,356,000 (31 December 2013: RMB622,904,000) which comprised cash and cash equivalents amounted to approximately RMB72,943,000 as at 30 June 2014 (31 December 2013: RMB161,709,000). As at 30 June 2014, the Group had non-current liabilities and current liabilities amounted to approximately RMB31,914,000 and RMB287,242,000 (31 December 2013: RMB13,694,000 and RMB279,222,000), consisting mainly of 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 2.4 as at 30 June 2014 (31 December 2013: 2.2).

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' equity, was approximately 27.6% as at 30 June 2014 (31 December 2013: approximately 22.7%).

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 six months ended 30 June 2014, 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 six months ended 30 June 2014, 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

There has been no change in the capital structure of the Company during the six months ended 30 June 2014. The capital of the Company mainly comprises ordinary shares and capital reserves.

The shares of the Company were listed on GEM of the Stock Exchange on 12 June 2012. The Company issued 15,120,000 new shares pursuant to exercise of share options during the six months period ended 30 June 2014. The capital of the Company mainly comprises ordinary shares and capital reserves.

Capital commitments

As at 30 June 2014, the Group had no material capital commitments (31 December 2013: RMB621,000).

Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

Information on employees

As at 30 June 2014, the Group had 431 employees (31 December 2013: 427), including the executive Directors. Total staff costs (including Directors' emoluments) were approximately RMB10,980,000 for the six months ended 30 June 2014 as compared to approximately RMB8,830,397 for the six months ended 30 June 2013. 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 six months ended 30 June 2014, 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 above, the Group did not have any plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June 2014, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Charges on assets

As at 30 June 2014, the Group had pledged bank deposit and trade receivables with carrying amount of RMB41,000,000 and RMB40,658,000 to secure the bank and other borrowings (31 December 2013: RMB28,000,000 and RMB5,400,000).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2014 (31 December 2013: Nil).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Revenue	3	202,465	127,840
Cost of sales/services		(135,057)	(77,710)
Gross profit		67,408	50,130
Other income		291	1,261
Other gains and losses	4	1,146	(1,555)
Marketing and distribution expenses		(6,786)	(3,122)
Administrative expenses		(19,119)	(13,862)
Research and development cost		(1,043)	(1,134)
Finance costs	5	(5,157)	(2,981)
Profit before taxation	6	36,740	28,737
Income tax expense	7	(4,700)	(2,882)
Profit and total comprehensive income for the period		<u>32,040</u>	<u>25,855</u>
Profit and total comprehensive income for the period attributable to:			
Equity holders of the Company		29,846	24,927
Non-controlling interests		2,194	928
		<u>32,040</u>	<u>25,855</u>
		RMB	RMB
Earnings per share	9		
Basic (cents)		1.8	1.5
Diluted (cents)		1.8	1.5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment	10	24,598	21,870
Goodwill	11	34,080	34,080
Intangible assets		123	86
Trade receivables	12	13,928	13,928
Deferred tax assets		58	68
		<u>72,787</u>	<u>70,032</u>
Current assets			
Inventories		4,195	3,377
Trade and bills receivables	12	164,327	155,601
Other receivables, deposits and prepayments		50,765	17,731
Amounts due from customers for contract work	13	352,026	254,466
Restricted bank deposits		41,100	30,020
Bank balances and cash		72,943	161,709
		<u>685,356</u>	<u>622,904</u>
Current liabilities			
Trade and other payables	14	170,652	173,913
Amounts due to related parties	17(b)	—	4,164
Bank and other borrowings	15	96,433	83,398
Provision		281	222
Income tax payables		19,876	17,525
		<u>287,242</u>	<u>279,222</u>

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Net current assets	398,114	343,682
Total assets less current liabilities	470,901	413,714
Non-current liabilities		
Bonds	24,568	7,240
Deferred tax liabilities	7,346	6,454
	31,914	13,694
Net assets	438,987	400,020
Capital and reserves		
Share capital	138,181	136,982
Reserves	287,277	251,703
Equity attributable to owners of the Company	425,458	388,685
Non-controlling interests	13,529	11,335
Total equity	438,987	400,020

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to equity holders of the Company							Total equity RMB'000
	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	
				(Note (a))				
For the six months ended 30 June 2014 (unaudited)								
Balance at 1 January 2014	136,982	28,142	2,596	36,441	184,524	388,685	11,335	400,020
Issue of shares from exercise of share option	1,199	10,324	(2,596)	—	—	8,927	—	8,927
Profit and total comprehensive income for the period	—	—	—	—	29,846	29,846	2,194	32,040
Conversion of additional capital of a subsidiary	—	—	—	(2,000)	—	(2,000)	—	(2,000)
At 30 June 2014 (unaudited)	<u>138,181</u>	<u>38,466</u>	<u>—</u>	<u>34,441</u>	<u>214,370</u>	<u>425,458</u>	<u>13,529</u>	<u>438,987</u>
For the six months ended 30 June 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	—	—	—	—	24,927	24,927	928	25,855
Recognition of equity-settled share-based payment	—	—	1,202	—	—	1,202	—	1,202
Acquisition of subsidiaries	—	—	—	—	—	—	7,410	7,410
At 30 June 2013 (unaudited)	<u>136,982</u>	<u>28,142</u>	<u>2,596</u>	<u>26,460</u>	<u>134,198</u>	<u>328,378</u>	<u>8,338</u>	<u>336,716</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 six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Net cash used in operating activities		<u>(103,036)</u>	<u>(45,707)</u>
Net cash (used in) from generated from investing activities		<u>(19,863)</u>	<u>2,010</u>
Net cash generated from financing activities		<u>34,133</u>	<u>16,697</u>
Net decrease in cash and cash equivalents		<u>(88,766)</u>	<u>(27,000)</u>
Cash and cash equivalents at 1 January		<u>161,709</u>	<u>130,300</u>
Cash and cash equivalents at 30 June, represented by bank balances and cash		<u><u>72,943</u></u>	<u><u>103,300</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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 of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) 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 six months ended 30 June 2014 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 2013 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 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:

	Six months ended 30 June	
	2014	2013
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Sales of goods	3,119	2,243
Construction contract revenue	182,028	123,740
Services income	17,286	1,825
Rental income	32	32
	<u>202,465</u>	<u>127,840</u>

Revenue from major products and services

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Deployment services of optical fibers		
– sales of goods	81	594
– provision of services	175,575	115,522
Low-voltage equipment integration services		
– sales of goods	3,038	1,649
– provision of services	6,453	8,218
Pipeline maintenance service	17,286	1,825
Rental income	32	32
	<u>202,465</u>	<u>127,840</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

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Other gains (losses) comprise:		
Net foreign exchange gain (loss)	366	(762)
Impairment loss recognised on trade receivables	—	(1,580)
Change in carrying amount of other borrowings resulting from the extension of maturity	780	787
	<u>1,146</u>	<u>(1,555)</u>

5. FINANCE COSTS

Finance costs comprise interest expenses on:

Other borrowings
Bank borrowings wholly repayable within five years
Bond

Six months ended 30 June

2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
3,114	1,659
1,582	1,322
461	—
<u>5,157</u>	<u>2,981</u>

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

Depreciation of property, plant and equipment
Amortisation of intangible assets

Six months ended 30 June

2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
2,106	1,325
17	8
<u>2,123</u>	<u>1,333</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Current tax:		
PRC enterprise income tax	3,799	2,602
Deferred tax:		
Current year	10	(457)
Withholding tax	891	737
	901	280
	4,700	2,882

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

- (a) Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 14 September 2011, 北京優通泰達電氣新技術發展有限公司 Beijing U-Ton Teda Electrical New Technology Development Co., Ltd. ("Beijing U-Ton") the Company's wholly-owned subsidiary, had been designated as a High and New Technology Enterprise and its PRC enterprise income tax rate is 15% for three years since the year of 2011.
- (b) Pursuant to a certificate issued by the local tax authority, in accordance with the Measures on Authorised Methods of EIT Collection (Trial) (企業所得徵收辦法(試行)), the taxable income of Hebei Changtong Communication Engineering Co., Ltd ("Hebei Changtong"), the Company's wholly-owned subsidiary, was derived based on 8% of its total revenue.
- (c) Pursuant to the PRC enterprise income tax assessment form issued by the local tax authority, in accordance with the Measures on Authorised Methods of EIT Collection (Trial) (企業所得徵收辦法(試行)), the taxable income of Shijiazhuang Qiushi Communication Facilities Co., Ltd ("Shijiazhuang Qiushi"), the Company's wholly-owned subsidiary, was computed based on 7% of its total revenue.

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

8. DIVIDENDS

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

The directors of the Company (the “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:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	<u>29,846</u>	<u>24,927</u>

	Six months ended 30 June	
	2014	2013
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,687,936	1,680,000
Effect of dilutive potential ordinary shares arising from issue of share options by the Company	<u>—</u>	<u>1,686</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,687,936</u>	<u>1,681,686</u>

No diluted earnings per share are presented for the period ended 30 June 2014 as there was no potential ordinary shares outstanding during that period.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired property, plant and equipment amounting to approximately RMB4,856,000 (six months ended 30 June 2013: RMB3,684,000).

11. GOODWILL

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Low-voltage equipment integration services located in Shijiazhuang, the PRC	30,099	30,099
Deployment services of optical fibers located in: Chongqing, the PRC	3,654	3,654
Hunan, the PRC	327	327
	<u>34,080</u>	<u>34,080</u>

12. TRADE AND BILL RECEIVABLES

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Trade receivables – current portion	166,265	157,270
Less: Allowance for impairment of receivables	(1,938)	(1,958)
	<u>164,327</u>	<u>155,312</u>
Bill receivable	—	289
	<u>164,327</u>	<u>155,601</u>
Trade receivables – non-current portion	13,928	13,928
	<u>178,255</u>	<u>169,529</u>

Included in the Group's trade receivables is a balance with amount of RMB16,883,000, which is repayable by annual installments over a period of 10 years which is non-interest bearing. Details of this receivable outstanding at 30 June 2014 are as follows:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Receivable:		
Within one year	2,955	2,955
In two to five years	10,974	10,974
Over five years	2,954	2,954
	16,883	16,883
Less: amount receivable within one year	(2,955)	(2,955)
Amount receivable after one year	13,928	13,928

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:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Within 90 days	55,096	106,547
91 to 180 days	20,310	6,584
181 to 365 days	51,153	17,959
1 to 2 years	30,709	19,697
2 to 3 years	4,104	1,859
	161,372	152,646
Trade receivable repayable by installments	16,883	16,883
Total trade receivables	178,255	169,529

As at 30 June 2014, retentions held by customers for contract works included in trade receivables amounted to approximately RMB10,806,000 (31 December 2013: RMB6,488,000).

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 June 2014 comparing to 31 December 2013 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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Trade payables	136,863	135,363
Bill payables	—	1,620
Amounts due to non-controlling shareholders	—	4,841
Other payables	10,048	7,647
Other tax payables	14,622	13,702
Accrued payroll	9,119	10,740
	<u>170,652</u>	<u>173,913</u>

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Within 90 days	79,948	117,817
91 to 180 days	20,985	3,917
181 to 365 days	28,161	7,419
1 to 2 years	6,266	5,328
2 to 3 years	1,471	882
Over 3 years	32	—
	<u>136,863</u>	<u>135,363</u>

15. BANK AND OTHER BORROWINGS

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Secured bank borrowings	63,970	24,300
Other borrowings – interest free	12,463	41,098
Other borrowings – interest bearing	20,000	18,000
	<u>96,433</u>	<u>83,398</u>

16. 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 2014	Granted during the period	Exercised during the period	Outstanding at 30 June 2014
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	—

17. 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
Mr. Li Qingli	Beneficial Shareholder and director of the Company
Mr. Jiang Changqing	Beneficial Shareholder and director of the Company

- (b) At 30 June 2014 and 31 December 2013, the Group has amounts payable to the following related parties and the details are set out below:

Name of related party	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000
Non-trade nature		
Mr. Li Qingli	—	37
Mr. Jiang Changqing	—	4,127
	<u>—</u>	<u>4,164</u>
	<u>—</u>	<u>4,164</u>

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

- (c) The remuneration paid and payable to the key management of the Company who are also the directors for the current interim period amounted to RMB772,000 (six months ended 30 June 2013: RMB763,000).

18. 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.

19. CAPITAL COMMITMENTS

	30 June 2014 RMB'000 (unaudited)	31 December 2013 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>621</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 June 2014. 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 June 2014
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 sixteen experimental sections and purchased motor vehicles for marketing purposes. In addition, the Group has established two representative office in Chongqing and Tianjin.
(iii) Securing strategic assets/rights	The Group has signed one co-operation memorandum with a government department and the Group is communicating with various relevant governmental departments in various cities of 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 staff.
(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. 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 June 2014 had been applied as follows:

	Use of proceeds from the Listing Date to period ending 30 June 2014 as shown in the Prospectus HK\$ (million)	Actual use of proceeds from the Listing Date to 30 June 2014 HK\$ (million)
1. Further strengthening our deployment services of optical fibers in the PRC		
(i) Investment in equipment	26.18	7.08
(ii) Market expansion	15.50	6.42
(iii) Securing strategic assets/rights	23.42	—
(iv) Acquisition	12.20	12.20
(v) Human resources	2.60	2.60
(vi) Research and development	3.10	3.10
Sub-total	83.00	31.40
2. Expanding our business of low-voltage equipment integration services in the PRC		
(i) Sales and marketing	2.40	1.08
3. Repayment of bank and other borrowings	14.30	14.30
4. General working capital (Note)	8.40	8.40
Total	108.10	55.18

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. According to the Company's announcement dated 24 July 2014, it disclosed the Company's intention to readjust the allocation of the unutilised use of proceeds. 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 such announcement.

SHARE OPTION SCHEMES

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

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

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

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

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

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

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

- (1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option (the "Date of Grant") which must be a trading day;
- (2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and
- (3) the nominal value of the shares on the Date of Grant.

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

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

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

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 six months ended 30 June 2014, are set out below:

Name or category of participant	Date of grant	Option exercisable and vesting period	Exercise price HK\$	Closing price as at date of grant	Number of options				
					Outstanding as at 01/01/2014	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 31/12/2014
Employee	14/8/2012	15/8/2012 to 14/8/2022	0.65	0.65	6,720,000	—	6,720,000	—	—
Employee	23/6/2013	4/6/2013 to 3/6/2018	0.82	0.82	8,400,000	—	8,400,000	—	—
Total	N/A	N/A	N/A	N/A	<u>15,120,000</u>	<u>—</u>	<u>15,120,000</u>	<u>—</u>	<u>—</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

As at 30 June 2014, 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 (Note 2 and note 3)	Our Company	Interest of a controlled corporation	1,062,980,000 Shares (L)	62.71%
	Our Company	Family	10,195,000 Shares (L)	0.60%
	Bright Warm Limited	Beneficial owner	1 share (L)	100%
Ms. Guo Aru (Note 3)	Our Company	Family	1,062,980,000 Shares (L)	62.71%
	Our Company	Beneficial owner	10,195,000 Shares (L)	0.60%
	Bright Warm Limited	Family	1 share (L)	100%
Mr. Li Qingli (Note 4)	Our Company	Interest of a controlled corporation	151,000,000 Shares (L)	8.91%
	Ordillia Group Limited	Beneficial owner	1,000 Shares (L)	100%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.
2. The 1,062,980,000 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 1,062,980,000 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. Moreover, Ms. Guo Aru held 10,195,000 Shares directly. Mr. Jiang Changqing is deemed to be interested in the 10,195,000 Shares held by Ms. Guo Aru.
4. The 151,000,000 Shares are held by Ordillia Group Limited, the entire issued capital of which is beneficially owned by Mr. Li Qingli, an executive Director.

Save as disclosed above, as at 30 June 2014, 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 June 2014, 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	1,062,980,000 Shares (L)	62.71%
Ordillia Group Limited (Note 3)	Our Company	Beneficial owner	151,000,000 Shares (L)	8.91%
Ms. Ren Yanping (Note 4)	Our Company	Family	151,000,000 Shares (L)	8.91%

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 1,062,980,000 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 June 2014, 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

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 June 2014 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 Rule 5.48 to Rule 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 2014 up to and including 30 June 2014. Since the Company's Shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding provisions set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

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 2014 up to and including 30 June 2014, except Code Provision A.2.1 as more particularly described below. Since the Company's Shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding code provisions set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

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. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 to C3.7 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 (chairlady of the audit committee), Mr. Meng Fanlin and Mr. Wang Haiyu. Since the Company's Shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Company has established on audit committee with written terms of reference in compliance with Rules 3.21 to 3.23 of the Rules Governing the Listing of Securities on the Stock Exchange.

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2014 have not been audited by the Company's auditors, but have been reviewed by the audit committee and the audit committee 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, 18 August 2014

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.