中國光纖網絡系統集團有限公司*

CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3777

2011 Interim Report

For identification purpose only

Contents

Financial Highlights

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2011, operating results of the Group were as follows:

— Revenue reached RMB624,763,000, an increase of 58.4% from the corresponding period of last year;

— Gross profit margin was 27.4% as compared to 34.1% of the corresponding period of last year as domestic sales accounted for 98.0% of total revenue in the first half of 2011 as compared with 71.5% of the corresponding period of last year;

— Profit for the Period amounted to RMB99,702,000, an increase of 7.3% over the corresponding period of last year. Profit for the Period was derived after deduction of RMB22,574,000 of non-recurring professional fees related to the IPO. On a proforma basis, the Group's interim profit, without deducting such non-recurring professional fees, would be RMB122,276,000;

— Basic and diluted earnings per share based on 900,000,000 shares comprising 1,559,454 shares in issue and 898,440,546 shares to be issued pursuant to the capitalization issue on June 3, 2011 as if the shares had been in issue throughout the period ended June 30, 2011 was RMB11.1 cents;

— No interim dividend was declared.

Company Overview

China Fiber Optic Network System Group Ltd. ("the Company"), together with its subsidiaries ("the Group") is the largest manufacturer of fiber optic patch cords in China in terms of sales volume and production capacity.

The Group produces and sells a comprehensive portfolio of fiber optic patch cords used in a variety of applications in the communications industry. In addition to fiber optic patch cords, the Group also produces connection and distribution products and equipment room accessories.

Currently, the Group has six fiber optic patch cord production lines and one soft optical cable production line in Shijiazhuang, Hebei Province, with annual production capacity of 9 million sets of fiber optic patch cords and 13,000 kilometers of soft optical cables. The Group is now adding new production lines targeting to increase annual production capacity to 12 million sets of fiber optic patch cords and 130,000 kilometers of soft optical cables by the end of October 2011.

The Group currently targets the fiber optic patch cord market in China by providing customized products and solutions to telecommunications network operators, broadcast and television communications network operators and specialized communications network operators. Major customers include China Telecom, China Mobile, China Unicom, and provincial broadcasting companies.

The Group also sells fiber optic patch cords to overseas markets including Ireland and New Zealand.

Corporate Information

PLACE OF INCORPORATION

Cayman Islands

FINANCIAL YEAR END

31 December

REGISTERED OFFICE

Maples Corporate Services Limited
P.O. Box 309, Ugland House
Grand Cayman, Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Alishan Avenue
Economic and Technological Development Zone
Shijiazhuang, Hebei Province, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2001, 20th Floor
Shui On Centre
6-8 Harbour Road, Wanchai
Hong Kong

COMPANY'S WEBSITE

www.chinafiberoptic.com

INVESTOR RELATIONS CONTACT

Mr. Hung, Randy King Kuen
Chief Financial Officer
Tel: (852) 2877-8033
Fax: (852) 2877-8083
E-mail: randyhung@chinafiberoptic.com

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Bing *(Chairman of the Board)*
Mr. Meng Yuxiao
Mr. Deng Xuejun
Mr. Hung, Randy King Kuen

Non-Executive Directors

Mr. Song Zhiping

Independent Non-Executive Directors

Mr. Shi Cuiming
Dr. Ma Kwai Yuen
Mr. Lui Pan

AUDIT COMMITTEE

Dr. Ma Kwai Yuen *(Chairman of Audit Committee)*
Mr. Shi Cuiming
Mr. Lui Pan

CORPORATE GOVERNANCE COMMITTEE

Dr. Ma Kwai Yuen
(Chairman of Corporate Governance Committee)
Mr. Shi Cuiming
Mr. Hung, Randy King Kuen

REMUNERATION COMMITTEE

Mr. Zhao Bing
(Chairman of Remuneration Committee)
Mr. Shi Cuiming
Mr. Lui Pan

AUTHORIZED REPRESENTATIVES

Mr. Hung, Randy King Kuen
Mr. Meng Yuxiao

COMPANY SECRETARY

Mr. Hung, Randy King Kuen

Corporate Information

LEGAL ADVISOR TO THE COMPANY

As to Hong Kong law:

Stevenson,Wong & Co.

As to Chinese law:

Grandall Legal Firm

As to Cayman Islands law:

Maples and Calder

AUDITOR

Ernst & Young

COMPLIANCE ADVISOR

China Merchants Securities (HK) Co., Limited

PRINCIPAL BANKERS

Bank of Communications, Hong Kong Branch
Bank of Communications, Shijiazhuang Branch
Bank of Hebei, Huaian Road Branch
China CITIC Bank, Shijiazhuang Branch

STOCK INFORMATION

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

3777

Listing Date

July 14, 2011

Issued Share Capital

1,217,300,000 shares

Board Lot Size

2,000 shares

CAYMAN SHARE REGISTRAR

Maples Fund Service (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Management Discussion and Analysis

OVERVIEW

For the six months period ended June 30, 2011, the Group's revenue increased 58.4% to RMB624,763,000 as compared with the corresponding period of last year. The impressive growth was led by strong demand of fiber optic patch cords from telecom network operators, broadcasting and television network operators, as well as continuous expansion of mobile networks in China. In particular, revenue from domestic sales increased 117.1% from the same period of last year. The Group believes that orders from domestic customers will remain enormously robust as construction of fiber optic access networks by telecom network operators, as well as broadcasting and television network operators are accelerating in China.

The Group's profit for the six month period ended June 30, 2011 increased 7.3% from the corresponding period of last year, to reach RMB99,702,000.

The reported interim profit includes RMB22,574,000 of non-recurring professional fees related to the Group's IPO. On a proforma basis, the Group's interim profit, without deducting such non-recurring professional fees, would be RMB122,276,000. The following table shows the impact of such non-recurring professional fees to our interim profit:

	Six months ended June 30,		
	2011	2010	Changes
	RMB'000	*RMB'000*	
		(Unaudited)	
Profit for the Period	**99,702**	92,932	7.3%
Non-recurring professional fees for IPO	**22,574**	7,804	
	122,276	100,736	21.4%

The Group completed its IPO on July 14, 2011. The total number of shares outstanding as of June 30, 2011 was 1,559,454. Subsequent to the IPO and completion of over-allotment option as announced on July 18, 2011, the total number of shares issued and outstanding became 1,217,300,000 shares.

Earnings per share for the six months period ended June 30, 2011 which was calculated based on 900,000,000 shares comprising 1,559,454 shares in issue and 898,440,546 shares to be issued pursuant to the capitalization issue on June 3, 2011 as if the shares had been in issue throughout the period ended June 30, 2011 was RMB11.1 cents.

The reported profit has exceeded the Group's profit forecast of RMB93,000,000 as stated in the Group's prospectus dated June 16, 2011 (the "Prospectus") by approximately 7.2%.

Management Discussion and Analysis

REVENUE

Revenue by product category for the six months period is set forth below:

	Six months ended June 30,		
	2011	2010	Growth
	RMB'000	*RMB'000*	
		(Unaudited)	
Fiber optic patch cords	**605,579**	364,982	65.9%
Connection & distribution products	**12,459**	25,303	(50.8%)
Equipment room accessories	**6,725**	4,184	60.7%
	624,763	394,469	58.4%

Fiber optic patch cord is one of the essential building blocks for fiber optic networks widely used in telecom, broadcast and television networks and specialized communications networks. The Group is a market leader with core competence in providing customized products and solutions to customers with over 100 models of fiber optic patch cords of superb quality. The Group's business focus on customization of fiber optic patch cord enables us to timely adapt to dynamic industry trends and the technology needs of our customers, which contributes to the Group's rapid growth and high operating efficiency.

The following shows revenue derived from domestic sales of our products to different type of domestic customers:

	Six months ended June 30,		
	2011	2010	Growth
	RMB'000	*RMB'000*	
		(Unaudited)	
Telecom network operators	**502,615**	217,793	130.8%
Broadcast and television network operators	**45,743**	21,262	115.1%
Specialized communication networks	**27,729**	28,095	(1.3%)
Others	**35,917**	14,703	144.3%
	612,004	281,853	117.1%

As the largest manufacturer of fiber optic patch cords in China, the Group is well positioned to capitalize on the booming market demand driven by the urge of telecom network operators to connect their fiber optic networks to the homes and buildings resided or occupied by fast growth numbers of broadband users as well as upgrade of access-layer network into fiber optic by broadcast and television operators in preparation for the acceleration of "Integration of Three Networks" promulgated by the State Council in the PRC.

Management Discussion and Analysis

DOMESTIC AND OVERSEAS SALES

During the first half of 2011, increase in revenue was mostly contributed by sales to domestic customers. The following table shows the breakdown of sales of fiber optic patch cords for domestic and overseas markets:

	Six months ended June 30,		
	2011	2010	Growth
	RMB'000	*RMB'000*	
		(Unaudited)	
Domestic sales — fiber optic patch cords	**592,820**	252,366	134.9%
Domestic sales — other products	**19,184**	29,487	(34.9%)
	612,004	281,853	117.1%
Oversea sales — fiber optic patch cords	**12,759**	112,616	(88.7%)
	624,763	394,469	58.4%

Our domestic sales of fiber optic patch cords increased significantly by 134.9% to RMB592,820,000 as compared to the six months ended June 30, 2010 as telecom operators have set aggressive goals to accelerate their reach to broadband subscribers via fiber optic connection technologies and at the same time the broadcast and television operators focus to upgrade their transmission networks to fiber optic networks in preparation for the "Integration of Three Networks".

In light of the Group's bottleneck in production capacity and the urgent needs to satisfy demand from domestic customers, the Group allocated almost all available production capacity to produce for domestic orders. Accordingly, oversea sales declined by 88.7% to RMB12,759,000 for the six months ended June 30, 2011. Oversea sales to Ireland and New Zealand were RMB3,337,000 and RMB9,422,000 respectively for the six months ended June 30, 2011, as compared to RMB56,308,000 and RMB56,308,000 respectively of the corresponding period of last year.

The Group targets to complete the construction of the two new production lines of fiber optic patch cords to increase capacity from 9 million sets to 12 million sets per annum by the end of October 2011. The Group is confident that it could catch up the back order of oversea sales during the second half of 2011.

During the first six months of 2011, the Group sold a total of 10,352,077 sets of fiber optic patch cords of which 5,352,077 sets were produced by the Group and 5,000,000 sets were made by outsourcing to independent contractors.

GROSS PROFIT MARGIN

For the first half of 2011, overall gross profit margin of the Group was 27.4%, as compared to 34.1% for the first half of 2010. The lower overall gross profit margin was primarily due to changes in proportion of domestic and overseas sales as a percentage of total revenue. Our domestic sales, which had a relatively lower margin than overseas sales, was 98.0% of total revenue for the first six months of 2011 as compared to 71.5% for the first six months of last year.

The following table sets forth the Group's gross profit margins with respect to total revenue from domestic and overseas sales for the first six months of 2010 and 2011:

	First six months of 2011		First six months of 2010	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000		*RMB'000* (Unaudited)	
Domestic sales	**163,582**	**26.7%**	73,131	25.9%
Overseas sales	**7,890**	**61.8%**	61,292	54.4%

The Group's gross profit margins for both domestic and oversea sales are sustaining their upward trends. For domestic sales of fiber optic patch cords, the average selling price increased from RMB57 to RMB58 per set. For oversea sales of fiber optic patch cords, the Group commenced to sell one more model with an average selling price of US$17 per set during the current period. The average selling price for the existing model has remained the same as US$55 per set. The Group believes that gross profit margins for both domestic and oversea sales of fiber optic patch cords will continue to sustain as raw material costs of key components remain stable and demand of fiber optic patch cords will continue to be robust for the second half of 2011.

OTHER INCOME

Other income, which mainly comprised of government grants and bank interest income increased by 220.6% to RMB1,398,000 as compared with the same period of last year. The increase was mainly due to the increases in bank interest income and receipt of various government grants for research and development activities.

SELLING AND DISTRIBUTION COSTS

During the current reporting period, selling and distribution costs of the Group increased 37.2% to RMB3,388,000 as compared to the same period of last year. Selling and distribution costs primarily consisted of transportation fees in connection with our sales, compensation of sales personnel, entertainment expenses, advertisement expenses and other expenses relating to our selling and distribution activities. The increase was mainly due to the increases in the advertisement expenses incurred in first half of 2011.

Selling and distribution costs were 0.6% and 0.5% of revenue for the six month period ended June 30, 2010, and 2011 respectively.

ADMINISTRATIVE EXPENSES

For the first six months of 2011, administrative expenses increased 119.6% to RMB37,596,000 as compared to the same period of last year. Administrative expenses primarily consisted of wages and salaries paid to management and administrative personnel, professional fees, research and development costs, and depreciation of property, plant and equipment not related to production. The increase was mainly due to the non-recurring professional fees related to the IPO of RMB22,574,000.

Management Discussion and Analysis

Wages and salaries increased from RMB2,309,000 to RMB4,262,000 during the first half of 2011 mainly due to the salaries paid to management hired in Hong Kong.

Professional fees increased from RMB7,804,000 to RMB23,774,000 as the Group booked most of its IPO related professional fees in the first half of 2011. Such IPO related professional fees will be significantly lower in the second half of 2011.

Research and development costs were RMB1,400,000 and RMB2,200,000 for first half of 2010 and 2011 respectively. The Group has 46 registered patents as of June 30, 2011. With financial resource from the proceeds of IPO, the Group will carry out its business plan to dedicate considerable efforts and resources to research and development to strength new product pipeline, and to design more specialized fiber optic patch cords models to suit specific needs of our customers.

Depreciation of property, plant and equipment not related to production were RMB1,205,000 and RMB1,426,000 for first half of 2010 and 2011 respectively.

For first half of 2010 and 2011, administrative expenses accounted for 4.3% and 6.0% of total revenue respectively.

FINANCE COSTS

Finance costs primarily consisted of interest expenses relating to the Group bank loans and bank loan guarantee expenses. For the first half of 2010 and 2011, finance costs accounted for 1.7% and 1.9% of total revenue respectively.

Finance costs increased by 73.4% to RMB11,622,000 as compared to the same period of 2010. The increase was primarily as a result of increase in bank loans to meet our working capital needs.

The effective interest rates of our bank loan per annum were 5.31% to 7.47% and 5.35% to 7.57% as of June 30, 2010 and June 30, 2011 respectively.

INCOME TAX

Income tax expenses increased 31.5% to RMB20,534,000 during the first half of 2011. The increase was in line with the increase in profit.

The effective tax rates for the first half of 2010 and 2011, after adding back the non-recurring IPO related professional fees, were 13.4% and 14.4% respectively. The increase in effective tax rate was because the proportion of profit derived from Hebei Sapphire Communication Equipment Co., Ltd. ("Sifang Telecom") in the consolidated profit increased from 46.4% to 95.2% in the first half of 2011.

The Company is not subject to any income tax in the Cayman Islands. No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the first half of 2010 and 2011. Hence income tax expenses were provided mainly from the Company's subsidiary Sifang Telecom which is subject to preferential corporate income tax rate of 12.5% for 2009 to 2011 and withholding tax at 10% on the distributable profit of Sifang Telecom.

Management Discussion and Analysis

Because Sifang Telecom is named as high tech enterprise, the Group believes that it will be entitled to a preferential corporate income tax rate of 15% in 2012 under the relevant tax laws and regulations of the PRC.

INTERIM DIVIDEND

The Board resolved not to declare interim dividend for the six months ended June 30, 2011.

DIVIDEND POLICY

The Company does not have a dividend policy at present. The Board believes that a clear dividend policy is important to our investors. Therefore the Board will further discuss dividend policy upon consideration of paying final dividend.

CAPITAL STRUCTURE

Subsequent to the six months ended June 30, 2011, the Company enlarged its share capital to 900,000,000 shares and completed its IPO and over-allotment by issuing a total of 317,300,000 of new shares. The issued share capital of the Company has increased from 1,559,454 shares as of June 30, 2011 to 1,217,300,000 shares as of the date of this interim report.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt includes interest-bearing bank loans, trade payables, other payables and accruals, tax payable and dividend payable less cash and cash equivalents. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios as of December 31, 2010 and June 30, 2011 were 40% and 47% respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2011, cash and bank deposits of the Group amounted to RMB255,450,000 which comprised of RMB226,501,000 and others being equivalent to RMB124,000 and RMB28,825,000 denominated in Hong Kong Dollars and United States Dollars respectively.

We have historically financed our operations through cash from operating activities and bank borrowings. In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flow, and proceeds from the IPO. Taking into account the financial resources available to us including internally generated funds, available banking facilities and the net proceeds from the IPO, the directors are of the opinion that we have sufficient working capital to meet our requirement for future development.

USE OF NET PROCEEDS FROM THE IPO

The Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on July 14, 2011. As of the date of this interim report, net proceeds from the IPO was deposited into a bank in Hong Kong awaiting for the regulatory approval to inject funds into the Company's subsidiary in China. The Group will apply net proceeds from the IPO in the manner set out in the Prospectus.

TRADE RECEIVABLES

Under the contracts with our domestic customers, the Group typically receive initial payment of 35% of the total contract price within 30 days after completion of preliminary inspection of our products, and the remaining contract price within one to three months after completion of final inspection. We offer credit terms ranging from three months to one year to major telecommunications network operators in China. For oversea customers, the Group typically received 60% of the total contract price within 30 days from bill of lading, 30% of the total contract price within 60 days from the bill of lading date and the remaining contract price within 90 days from the bill of lading date.

Trade receivable balances increased 33.0% from RMB563,668,000 as at December 31, 2010 to RMB749,444,000 as at June 30, 2011. Trade receivable balance as at June 30, 2010 was RMB472,826,000. The increase in trade receivables was primarily due to increase of 117.1% of sales to our domestic customers.

Trade receivable turnover days were 199 days, 207 days and 189 days for the six month periods ended June 30, 2010, for the year ended December 31, 2010, and for the six month period ended June 30, 2011. The trade receivable turnover days was in a decreasing trend because sales to the domestic customers involved projects with shorter installation cycle during the six month periods ended June 30, 2011.

There were no bad debt provisions made on trade receivables for both six month periods ended June 30, 2010 and 2011.

INVENTORIES

Inventories as at June 30, 2011 was RMB13,419,000 as compared to RMB13,618,000 as at June 30, 2010 and RMB25,028,000 as at December 31, 2010.

Inventory turnover days were 9 days, 11 days and 8 days for the six month periods ended June 30, 2010, for the year ended December 31, 2010, and for the six month period ended June 30, 2011.

The inventory balances and turnover days remained at low level as the Group continued to implement strong inventory control to improve operating cycle, and strong market demand has led to more rapid turnover of good produced.

CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB126,367,000 for the six month period ended June 30, 2011, which were mostly related to construction of production facilities in progress. Capital expenditures have been primarily funded by net cash generated from operation and bank financing. In the coming twelve months, the Group expects to incur additional capital expenditures of RMB210,000,000 to increase production capacities of fiber optic patch cords, soft optical cables as well as machining and to strength our research and development capability. These capital expenditures will be funded by net proceeds from the IPO, as well as cash generated from operation and additional bank financing.

Management Discussion and Analysis

TRADE PAYABLES

Trade payables as at June 30, 2011 was RMB50,092,000 as compared to RMB16,781,000 as at June 30, 2010 and RMB19,546,000 as at December 31, 2010. The increase in trade payable was primarily due to the increase in volume of goods produced.

Trade payables turnover days were 28 days, 27 days and 14 days for the six month periods ended June 30, 2010, for the year ended December 31, 2010, and for the six month period ended June 30, 2011. Trade payable turnover days decreased as the Group accelerate payments on certain raw materials for further discount on pricing during the six month periods ended June 30, 2011.

INDEBTEDNESS

As of June 30, 2011, our total banking facilities amounted to RMB643,500,000, of which RMB454,710,000 was utilized and an amount of RMB188,790,000 is unutilized. Please refer to Note 23 to the audited account for more detail of our bank loans as of June 30, 2011. Among all the bank loans, RMB161,210,000 were pledged by trade receivables as of June 30, 2011.

The effective interest rates of our bank loans per annum were 5.31% to 7.47% and 5.35% to 7.57% as of June 30, 2010 and June 30, 2011 respectively.

OTHER PAYABLES AND ACCRUALS

Other payables and accruals consists primarily of taxes payable other than income tax, and payable to professional parties and facilities contractors. The increase in balance was due to the increase in value added tax payable and also increase in outstanding professional fees related to the IPO.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at June 30, 2011.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this report, there were no significant investments held, material acquisitions, or disposals of subsidiaries during the period under review. There was no plan authorised by the Board for other material investments or additions of capital assets at the date of this report.

CHARGES ON ASSETS

As of June 30, 2011, the Group had pledged RMB557,434,000 (December 31, 2010: RMB160,871,000) of assets in order to secure banking facilities or bank loans.

Management Discussion and Analysis

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Substantially all of the Group's business transactions and liabilities are denominated in Renminbi, US Dollars and Hong Kong Dollars. The Group adopts a conservative financial policy and most of its bank deposits are in Renminbi, US Dollars and Hong Kong Dollars.

As at June 30, 2011, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

RELATED PARTY TRANSACTIONS

The Group had not entered into any related party transactions for the six months periods ended June 30, 2010 and 2011.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As of June 30, 2011, the Group did not have any off-statement of financial position arrangements.

EMPLOYEES

As at June 30, 2011, the Group had 322 employees (December 31, 2010: 288 employees). Remuneration is determined and reviewed based on fair principles with reference to market conditions and individual performance.

The Group also provides other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong are also enrolled in the mandatory provident fund scheme.

OUTLOOK

Fiber optic patch cords are one of the key components in fiber optic networks. Market demand for fiber optic patch cords in China is growing rapidly driven by the acceleration of fiber to homes and buildings, upgrade of broadcast and television networks and continuous expansion of mobile networks. In February 2011, China Telecom announced its "Broadband China, Optical Network City" strategy to increase FTTH subscribers by 30 million in 2011 alone, an increase of 300% from total subscribers obtained in the past 5 years before, and it will build fiber access network in all cities of China in the next 3 years. In addition, broadcast and television network operators are rushing to replace its network with fiber optics in preparation for the "Integration of Three Networks" and the cessation of analogue television boardcast signal by the end of 2015. Demand for fiber optic patch cords from mobile network operators will also continue to increase as they keep expanding and upgrading their mobile networks and mobile base stations.

Management Discussion and Analysis

The fiber optic patch cord market in China is dominated by a few large players, with a number of small manufacturers competing for the remaining portion of the market. The Group believes that it has been a leader in sales volume production capacity, speed of delivery, product quality and technical capabilities, design customization, customer services, economies of scale and reputation. Riding on the Group's competitive advantages on these core competences, the Group is now concentrating in building production capacity and increase our headcount to solidify our leadership position and to expand our customer base beyond the provinces and countries we have been serving. We target to complete installation of 2 production lines so our annual production capacity can reach 12 million sets of patch cords by the end of October 2011. We have started recruiting new talent to cope with the need of our rapid growth. In addition, we are also establishing new offices in different regions of China to increase our presence and enhance customer services.

Outside China, the global fiber optic patch cord market is also resuming its growing trend since the financial crisis in 2009 due to the rapidly rising in broadband and mobile users. The Group is well positioned to capture this growth opportunity with increased production capacity. Hence, the Group will boost our sales effort outside China. We are determined to expand our oversea sales beyond Ireland and New Zealand in 2012.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's auditors the interim results, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the audit of consolidated financial statements for the six months ended June 30, 2011.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has been in compliance with the principles and provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules from its listing on the Stock Exchange on July 14, 2011, to the date of this interim report.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Specific enquiries have been made to the Directors, and each of the Directors has confirmed his compliance with the Model Code in connection with the Company's securities from the date of their appointments to the date of this interim report.

Management Discussion and Analysis

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has completed its IPO on July 14, 2011. Together with the over-allotment options exercised on July 18, 2011, the Company issued a total of 317,300,000 new shares to the public and the total issued capital became 1,217,300,000 shares.

During the six months ended June 30, 2010, neither the Company nor any of its subsidiaries has purchased or redeemed any of the Company's listed securities.

APPRECIATION

On behalf of the Board, I would like to thank our shareholders and those who have supported our group, as well as our employees who made tremendous efforts to achieve the growth in our results during the period.

By order of the Board
China Fiber Optic Network System Group Ltd.
Zhao Bing
Chairman

Hong Kong, August 30, 2011

Other Information

SHARE OPTION SCHEMES

The Company has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme by resolution of the shareholders on June 3, 2011.

The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are substantially the same except for the subscription price which was the offer price of the Company's IPO for options granted under the Pre-IPO Option Scheme. A summary of the principle terms and conditions of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in the section headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix VI of the Prospectus of the Company.

The purposes of the Pre-IPO Share Option Scheme and the Share Option Scheme are to reward employees for their past and future contributions to our Group, to aid the Group in retaining key and senior employees and to encourage employees to work toward enhancing the Group's value.

Details of the options granted to directors of the Company to subscribe for shares under the Pre-IPO Share Option Scheme are as follows:

Directors	Date of Grant	Exercise price per Share *HK$*	As at January 1, 2011	Granted during the Period	Exercised during the Period	Forfeited during the Period	Cancelled during the Period	As at June 30, 2011	Exercise period
Mr. Meng Yuxiao	June 3, 2011	1.20	—	7,200,000	—	—	—	7,200,000	January 14, 2012 to June 2, 2012
Mr. Deng Xuejun	June 3, 2011	1.20	—	7,200,000	—	—	—	7,200,000	January 14, 2012 to June 2, 2012
Mr. Hung, Randy King Kuen	June 3, 2011	1.20	—	7,200,000	—	—	—	7,200,000	January 14, 2012 to June 2, 2012
			—	21,600,000	—	—	—	21,600,000	

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme since adoption and as at the date of this Interim Report.

Other Information

DISCLOSURE OF INTEREST

The shares of the Company (the "Shares") were listed on the Main Board of the Stock Exchange on July 14, 2011 (the "Listing"). As at June 30, 2011, being the balance sheet date of the interim period and prior to the Listing, Section 352 of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("SFO") and the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of Hong Kong Listing Rules (the "Model Code") were not applicable to the directors and chief executive of the Company.

(a) Directors' and chief executives' interests and short positions in the Shares, underlying shares and debenture

As at August 30, 2011, being the date of this Interim Report, the interests or short positions of directors and chief executives in the Shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which are 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 and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

Long positions in the Shares, underlying shares and debentures

Name of Director	Company/name of associated company	Natural of interest	Number of Shares	Number of underlying shares[3]	Aggregate interest	Approximate percentage of interest
Mr. Zhao Bing	the Company	Interest of controlled corporation	526,125,012 Shares[1]	—	526,125,012	43.22%
	Kemy Holding Inc. ("Kemy")	Beneficial interest	4,740 shares of US$1.00 each	—	—	79.00%
Mr. Meng Yuxiao	the Company	Beneficial interest	–	7,200,000	7,200,000	0.59%
Mr. Deng Xuejun	the Company	Beneficial interest	—	7,200,000	7,200,000	0.59%
Mr. Hung, Randy King Kuen	the Company	Beneficial interest	3,000,000 Shares	7,200,000	10,200,000	0.84%
Mr. Song Zhiping	the Company	Interest of controlled corporation	99,375,074 Shares[2]	—	99,375,074	8.16%
	Wakee Holding Inc. ("Wakee")	Beneficial interest	1,000,000 shares of US$0.001 each	—	—	100.00%
Dr. Ma Kwai Yuen	the Company	Beneficial interest	250,000 Shares	—	250,000	0.02%

Notes:

1. These Shares are registered in the name of Kemy, the entire issued share capital of which is legally and beneficially owned as to 79% by Mr. Zhao Bing, 17% by Ms. Shi Shuran (mother of Mr. Zhao Bing), 1% by Mr. Zhang Yonglu, 1% by Mr. Deng Xuejun (an executive Director), 1% by Mr. Meng Yuxiao (an executive Director) and 1% by Mr. Han Liren. Under the SFO, Mr. Zhao Bing is deemed to be interested in all the Shares held by Kemy.

2. These Shares are registered in the name of Wakee, the entire issued share capital of share is legally and beneficially owned by Ms. Ou Shujin, the spouse of Mr. Song Zhiping. Under the SFO, Mr. Song Zhiping is deemed to be interested in all the Shares held by Ms. Ou Shujin.

3. Details of share options held by directors are shown in the section of "Share Option Schemes".

Other Information

(b) Substantial shareholders' interests and short positions in the Shares, underlying shares and debenture

Long positions in the Shares, underlying shares and debentures

Name of shareholder	Nature of interest	Interest in Shares	Percentage of issued share capital
Kemy	Beneficial owner	526,125,012	43.22%
Mr. Zhao Bing[(1)]	Interest of controlled corporation	526,125,012	43.22%
Cathay Telecom Equipment Limited ("Cathay")	Beneficial owner	152,499,856	12.53%
Cathay Capital Holdings, L.P.[(2)]	Interest of controlled corporation	152,499,856	12.53%
Cathay Master GP, Ltd.[(2)]	Interest of controlled corporation	152,499,856	12.53%
Wakee	Beneficial owner	99,375,074	8.16%
Mr. Song Zhiping[(3)]	Interest of controlled corporation	99,375,074	8.16%
Sino Power Management Limited	Beneficial owner	94,000,000	7.72%
Link Chance Investment Limited[(4)]	Interest of controlled corporation	94,000,000	7.72%
Link Chance Investment (Hong Kong) Limited[(4)]	Interest of controlled corporation	94,000,000	7.72%
Searainbow Holding Corporation[(4)]	Interest of controlled corporation	94,000,000	7.72%

Notes:

1. These Shares are registered in the name of Kemy, the entire issued share capital of which is legally and beneficially owned as to 79% by Mr. Zhao Bing, 17% by Ms. Shi Shuran (mother of Mr. Zhao Bing), 1% by Mr. Zhang Yonglu, 1% by Mr. Deng Xuejun (an executive Director), 1% by Mr. Meng Yuxiao (an executive Director) and 1% by Mr. Han Liren. Under the SFO, Mr. Zhao Bing is deemed to be interested in all the Shares held by Kemy.

2. These Shares are registered in the name of Cathay, the entire issued share capital of which is owned by Cathay Capital Holdings, L.P., a private equity fund and a limited partnership with direct investment in the PRC. Cathay Capital Holdings, L.P. is managed by its general partner, Cathay Master GP, Ltd.. Under the SFO, Cathay Capital Holdings, L.P. and Cathay Master GP, Ltd. are deemed to be interested in all the Shares held by Cathay.

3. These Shares are registered in the name of Wakee, the entire issued share capital of share is legally and beneficially owned by Ms. Ou Shujin, the spouse of Mr. Song Zhiping. Under the SFO, Mr. Song Zhiping is deemed to be interested in all the Shares held by Ms. Ou Shujin.

4. These Shares are registered in the name of Sino Power Management Limited, which is indirectly wholly-owned by Searainbow Holding Corporation, a company whose shares are traded on the Shenzhen Stock Exchange. Under the SFO, Searainbow Holding Corporation is deemed to be interested in all the Shares held by Sino Power Management Limited.

Independent Auditors' Report

ERNST & YOUNG
安 永 會 計 師 事 務 所

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To the board of directors of China Fiber Optic Network System Group Ltd.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Fiber Optic Network System Group Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 22 to 70, which comprise the consolidated and company statements of financial position as of June 30, 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as of June 30, 2011, and of the Group's profit and cash flows for the six months then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

We draw attention to the fact that the comparative amounts set out in the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes for the six months ended June 30, 2010 have not been audited.

Ernst & Young
Certified Public Accountants
Hong Kong
August 30, 2011

Consolidated Statement of Comprehensive Income

		For the six months ended June 30,	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
			(Unaudited)
REVENUE	*4*	**624,763**	394,469
Cost of sales		**(453,291)**	(260,046)
Gross profit		**171,472**	134,423
Other income	*5*	**1,398**	436
Selling and distribution costs		**(3,388)**	(2,470)
Administrative expenses		**(37,596)**	(17,123)
Other operating expenses		**(28)**	(18)
Finance costs	*6*	**(11,622)**	(6,701)
PROFIT BEFORE TAX	*6*	**120,236**	108,547
Income tax	*8*	**(20,534)**	(15,615)
PROFIT FOR THE PERIOD	*9*	**99,702**	92,932
OTHER COMPREHENSIVE INCOME			
Foreign currency translation		**(2,168)**	(183)
Total comprehensive income for the Period attributable to owners of the Company	*9*	**97,534**	92,749
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	*10*	**RMB11.1 cents**	RMB10.3 cents

Details of the dividends payable and proposed during the six months ended June 30, 2011 and 2010 are disclosed in Note 27 to Financial Information.

Consolidated Statement of Financial Position

	Notes	June 30, 2011 RMB'000	December 31, 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**581,754**	471,875
Prepaid land lease payments	12	**26,996**	26,214
Payments in advance	13	**23,200**	23,200
Goodwill	15	**15,563**	15,563
Deferred tax assets	16	**1,740**	1,219
Total non-current assets		**649,253**	538,071
CURRENT ASSETS			
Inventories	17	**13,419**	25,028
Trade receivables	18	**749,444**	563,668
Prepayments, deposits and other receivables	19	**56,253**	10,925
Pledged bank deposits	20	**400**	1,200
Cash and cash equivalents	20	**255,050**	127,595
Total current assets		**1,074,566**	728,416
CURRENT LIABILITIES			
Trade payables	21	**50,092**	19,546
Other payables and accruals	22	**317,974**	189,400
Tax payable		**64,580**	47,570
Dividend payable	27	**51,206**	51,206
Interest-bearing bank loans	23	**454,710**	273,500
Total current liabilities		**938,562**	581,222
NET CURRENT ASSETS		**136,004**	147,194
TOTAL ASSETS LESS CURRENT LIABILITIES		**785,257**	685,265
NON-CURRENT LIABILITIES			
Deferred income	24	**5,100**	5,300
Deferred tax liabilities	16	**5,194**	2,536
Total non-current liabilities		**10,294**	7,836
Net assets		**774,963**	677,429
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	**12**	12
Reserves	26	**774,951**	677,417
Total equity		**774,963**	677,429

Consolidated Statement of Changes in Equity

	Issued capital RMB'000 Note 25	Share premium* RMB'000 Note 26(a)	Statutory reserve fund* RMB'000 Note 26(b)	Special reserve* RMB'000	Capital contribution reserve* RMB'000	Foreign translation reserve* RMB'000	Retained earnings* RMB'000	Total RMB'000
For the six months ended June 30, 2011								
At January 1, 2011	12	67,688	41,658	59,906	62,825	6,199	439,141	677,429
Profit for the period	—	—	—	—	—	—	99,702	102,361
Other comprehensive income for the period:								
Exchange difference on foreign currency translation	—	—	—	—	—	(2,168)	—	(2,168)
Total comprehensive income for the period	—	—	—	—	—	(2,168)	102,361	97,534
Transfer from/(to) reserves	—	—	11,549	—	—	—	(11,549)	—
At June 30, 2011	12	67,688	53,207	59,906	62,825	4,031	527,294	774,963
At January 1, 2010	12	118,894	30,824	59,906	62,825	7,554	268,104	548,119
Profit for the period	—	—	—	—	—	—	92,932	92,932
Other comprehensive income for the period:								
Exchange difference on foreign currency translation	—	—	—	—	—	(183)	—	(183)
Total comprehensive income for the period	—	—	—	—	—	(183)	92,932	92,749
Dividend declared *(note 27)*	—	(51,206)	—	—	—	—	—	(51,206)
Transfer from/(to) reserves	—	—	5,419	—	—	—	(5,419)	—
At June 30, 2010 (unaudited)	12	67,688	36,243	59,906	62,825	7,371	355,617	589,662

* These reserves accounts comprise the consolidated reserves of RMB774,951,000 (June 30, 2010: RMB589,650,000) in the consolidated statements of financial position.

Consolidated Statement of Cash Flows

		For the six months ended June 30,	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
			(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**120,236**	108,547
Adjustments for:			
Depreciation	*6, 11*	**16,487**	13,694
Amortization of prepaid land lease payments	*6, 12*	**333**	297
Interest on bank loans	*6*	**10,905**	6,255
Bank interest income	*5*	**(571)**	(222)
Deferred income released	*5, 24*	**(200)**	(200)
		147,190	128,371
Decrease/(increase) in inventories		**11,609**	(2,982)
Increase in trade receivables		**(185,776)**	(86,363)
Increase in prepayments, deposits and other receivables		**(45,328)**	(2,527)
Increase/(decrease) in trade payables		**30,546**	(47,116)
Increase in other payables and accruals		**115,566**	42,757
Cash generated from operations		**73,807**	32,140
Interest paid		**(10,570)**	(6,674)
Interest received		**571**	222
Income tax paid		**(1,387)**	(227)
Net cash flows from operating activities		**62,421**	25,461
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(113,693)**	(46,209)
Additions to prepaid land lease payments		**(1,115)**	(1,505)
Decrease in pledged deposits		**800**	—
Net cash flows used in investing activities		**(114,008)**	(47,714)

Consolidated Statement of Cash Flows

		For the six months ended June 30,	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
			(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in an amount due to a related party		**—**	(474)
New bank loans		**331,210**	150,000
Repayment of bank loans		**(150,000)**	(126,000)
Net cash flows from financing activities		**181,210**	23,526
NET INCREASE IN CASH AND CASH EQUIVALENTS		**129,623**	1,273
Cash and cash equivalents at beginning of year		**127,595**	106,125
Net foreign exchange difference		**(2,168)**	(183)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**255,050**	107,215
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*20*	**255,050**	107,215

Statement of Financial Position

	Notes	June 30, 2011 RMB'000	December 31, 2010 RMB'000
NON-CURRENT ASSETS			
Equipment		**57**	63
Investments in subsidiaries	*14*	**132,008**	132,008
Total non-current assets		**132,065**	132,071
CURRENT ASSETS			
Due from a subsidiary	*14*	**23,153**	25,713
Prepayments and other receivables	*19*	**12,306**	4,517
Cash at banks	*20*	**4,824**	13,510
Total current assets		**40,283**	43,740
CURRENT LIABILITIES			
Dividend payable	*27*	**51,206**	51,206
Other payables		**19,560**	224
Due to a subsidiary	*14*	**16,426**	16,803
Total current liabilities		**87,192**	68,233
NET CURRENT LIABILITIES		**(46,909)**	(24,493)
NET ASSETS		**85,156**	107,578
EQUITY			
Issued capital	*25*	**12**	12
Reserves	*26*	**85,144**	107,566
Total equity		**85,156**	107,578

Notes to Financial Statements

1. CORPORATE INFORMATION

China Fiber Optic Network System Group Ltd. (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on August 7, 2006 under the Companies Law (2011 Revision) (as consolidated and revised from time to time) of the Cayman Islands. The registered office address of the Company is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, Cayman Islands.

On July 14, 2011, the Company completed an initial public offering (the "IPO") of its ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the six months ended 30 June 2011 (the "Period"), the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the production and sale of fiber optic patch cords and other accessories. There were no significant changes in the nature of the Group's principal activities during the Period.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Kemy Holding Inc., which is incorporated in the Cayman Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the IASB and the International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared on a historical cost convention and are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The comparative amounts of the consolidated statement of comprehensive income in respect of the six months ended June 30, 2010 and the related notes disclosed in the consolidated interim financial statements have not been audited.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the Period. Pacific Gain Technologies Limited, a subsidiary of the Company has adopted March 31 as its financial year end. For the preparation of the consolidated financial statements, the Group adopted December 31 as the Group's financial year end. The financial statements of the subsidiaries are prepared using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes: (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new or revised IFRSs ("new or revised IFRSs") for the first time for the Period's financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *Fist-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 32 Amendment	*Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issue*
IAS 24 (Revised)	*Related Party Disclosures*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRSs Amendments*	*Improvements to IFRSs 2010*

* The Group has adopted all the improvements to IFRSs issued in May 2010 which are applicable to its operations.

While the adoption of the new or revised IFRSs may result in changes in certain accounting policies, the adoption of these new or revised IFRSs has had no significant effect on these financial statements for the Period.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
IAS 12 Amendments	*Amendments to IAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets* [2]
IAS 1 Amendments	*Presentation of Financial Statements* [3]
IFRS 9	*Financial Instruments* [4]
IAS 19 Amendments	*Employee Benefits* [4]
IFRS 10	*Consolidated Financial Statements* [4]
IFRS 11	*Joint Arrangements* [4]
IFRS 12	*Disclosure of Interests in Other Entities* [4]
IFRS 13	*Fair Value Measurement* [4]
IAS 27 (Revised)	*Separate Financial Statements* [4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [4]

1 Effective for annual periods beginning on or after July 1, 2011
2 Effective for annual periods beginning on or after January 1, 2012
3 Effective for annual periods beginning on or after July 1, 2012
4 Effective for annual periods beginning on or after January 1, 2013

Further information about these changes, which are expected to significantly affect the Group, is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39 while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from January 1, 2013.

IFRS 10 issued in May 2011 is to deal with divergence in practice in applying IAS 27 and SIC-12 and resolves a perceived conflict of emphasis between IAS 27 and SIC-12 leading to inconsistent application of the concept of control. In addition, the global financial crisis that started in 2007 highlighted the lack of transparency about the risks to which investors were exposed from their involvement with "off balance sheet vehicles" (such as securitization vehicles), including those that they had set up or sponsored. As a result, the accounting and disclosure requirements for such "off balance sheet vehicles" were asked to be reviewed.

IFRS 10 identifies the principle of control and determines how to identify whether an investor controls an investee and therefore should consolidate the investee. IFRS 10 also identifies the principles for preparation of consolidated financial statements. IFRS 10 does not address the accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements as specified in IAS 27. The parts of IAS 27 that relate to separate financial statements have been included in the amended IAS 27.

IFRS 10 will supersede the requirements relating to consolidated financial statements in IAS 27 and SIC-12. Before this replacement, the guidance in IAS 27 on consolidated financial statements continues to apply. The Group expects to adopt IFRS 10 from January 1, 2013.

IAS 27 (as amended in 2011) is issued concurrently with IFRS 10. The main change made in May 2011 was that IFRS 10 replaced the consolidation requirements in IAS 27. Only accounting and disclosure requirements for the preparation of separate financial statements remained in IAS 27; the standard was therefore renamed Separate Financial Statements. When IAS 27 was amended in 2011, the IASB clarified the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent that prepares consolidated financial statements that comply with IFRSs. The Group expects to adopt IAS 27 (as amended in 2011) from January 1, 2013.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating polices the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and fair value of the Group's previously held equity interests in the acquiree over the fair value of net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as of December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to January 1, 2010 but after January 1, 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to January 1, 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where:

(i) the entity and the Group are members of the same group;

(ii) the entity is an associate or joint venture of the Group or vice versa (or an associate or joint venture of a member of a group of which the Group is a member or vice versa);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) the entity is a joint venture of a third entity and the Group is an associate of the same entity or vice versa;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (or the entity is the sponsoring employers if the Group is itself such a plan);

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of items of property, plant and equipment are as follows:

Buildings	30 years
Plant and machinery	10 - 15 years
Office equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments, which represent the acquisition cost of state-owned land use rights in the Mainland China, are classified as operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

The Group's financial assets included cash and cash equivalents and pledged bank deposits, and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in "Other Income" in the consolidated statements of comprehensive income. The loss arising from impairment is recognized in the consolidated statements of comprehensive income in "Other operating expenses".

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset of the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amounts and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "Other Operating expenses" in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities included trade payables, other payables, dividend payable and interest-bearing bank loans.

Subsequent measurement

The subsequent measurement loans and borrowings is as follows:

After initial recognition, interest-bearing bank loans are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortization is included in "Financial costs" in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is currently enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statements of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company and its subsidiary incorporated outside the PRC is United States dollars ("US$"). The functional currency of the PRC subsidiary is RMB. These Financial statements are presented in RMB, which is the Group's presentation currency. That is also the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into RMB at the exchange rates of ruling at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognized in other comprehensive income and accumulated in the foreign translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial government in the Mainland China. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to profit or loss as they become payable in accordance with the rules of the defined contribution retirement benefit plans.

In addition to the above, the Group also participates in a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The Company's contributions are capped to HK$1,000 per month for each of its employees in Hong Kong and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial Information requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

Estimation uncertainty

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

Notes to Financial Statements

(a) ***Impairment of goodwill***

The Group estimates whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at June 30, 2011 and December 31, 2010 was RMB15,563,000. Further details are given in Note 15.

(b) ***Impairment of receivables***

Impairment of receivables is made based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the Period.

(c) ***PRC corporate income tax ("CIT")***

The Group's operating subsidiary in the Mainland China is subject to PRC CIT. Certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision for PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and tax provision in the period in which the differences realize. The carry amount of PRC CIT payable at June 30, 2011 was RMB64,580,000 (December 31, 2010: RMB47,570,000).

(d) ***Useful lives of property, plant and equipment***

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated. The carrying amounts of property, plant and equipment at June 30, 2011 was RMB581,754,000 (December 31, 2010: RMB471,875,000).

(e) ***Deferred tax assets***

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at June 30, 2011 was RMB1,740,000 (December 31, 2010: RMB1,219,000).

(f) ***Net realizable value of inventories***

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses these estimates at the end of each reporting period. The carrying amounts of inventories at June 30, 2011 was RMB13,419,000 (December 31, 2010: RMB25,028,000).

4. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is the Group's turnover, represents the net invoiced value of goods sold, net of various types of government surcharges.

The Group's revenue and contribution to profit are mainly derived from the manufacture and sale of fiber optic patch cords and other accessories, which is regarded as a single reportable operating segment in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for purposes of resources allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the Period:

	For the six months ended June 30,			
	2011		2010	
	RMB'000	%	*RMB'000*	%
			(Unaudited)	
Fiber optic patch cords	**605,579**	**96.9**	364,982	92.5
Connection and distribution product series	**12,459**	**2.0**	25,303	6.4
Equipment room accessories	**6,725**	**1.1**	4,184	1.1
	624,763	**100.0**	394,469	100.0

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the Period. The geographical location of customers is determined based on the location at which the goods were delivered.

	For the six months ended June 30,	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Domestic*:		
— Mainland China	**612,004**	281,853
Overseas:		
— Ireland	**3,337**	56,308
— New Zealand	**9,422**	56,308
	12,759	112,616
	624,763	394,469

* Place of domicile of the Group's principal subsidiary, Hebei Sapphire Communication Equipment Co., Ltd. ("Sifang Telecom").

All of the Group's non-current assets were located in Mainland China.

Information about major customers

Revenue from each major customer, which accounted for 10% or more of the Group's revenue during the Period is set out below:

	For the six months ended June 30,	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Customer A	**	56,308
Customer B	**	56,308
Customer C	**241,704**	102,210
Customer D	**119,012**	48,504
Customer E	**83,775**	40,527

** Less than 10%

The revenue from above customers was in respect of fiber optic patch cords products.

Notes to Financial Statements

5. OTHER INCOME

An analysis of the Group's other income during the Period is as follows:

	For the six months ended June 30,	
	2011	*2010*
	RMB'000	*RMB'000*
		(Unaudited)
Government grants*	**500**	—
Deferred income released *(note 24)*	**200**	*200*
Bank interest income	**571**	*222*
Rental income	**100**	—
Others	**27**	*14*
Total other income	**1,398**	*436*

* Various government grants have been received for certain research and development activities. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		For the six months ended June 30,	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
			(Unaudited)
Cost of inventories sold		**453,291**	260,046
Employee benefit expense (including directors' remuneration as set out in *note 7*):			
— Wages and salaries		**5,029**	3,095
Pension scheme contributions			
— Defined contribution fund		**674**	471
Total employee benefit expense		**5,703**	3,566
Interest on bank loans		**10,905**	6,255
Bank loan guarantee fees		**717**	446
Finance costs		**11,622**	6,701
Auditors' remuneration		**1,200**	—
Depreciation of items of property, plant and equipment	*11*	**16,487**	13,694
Amortization of prepaid land lease payments	*12*	**333**	297
Operating lease rental in respect of buildings		**303**	118
Research and development costs		**2,200**	1,400

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors remuneration disclosed pursuant to the disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	For the six months ended June 30,	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Fees	**46**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,434**	377
Pension scheme contributions	**35**	26
	1,469	403
	1,515	403

(a) Independent non-executive directors

Mr. Shi Cuiming, Mr. Lui Pan and Dr. Ma Kwai Yuen were appointed as independent non-executive directors on June 3, 2011.

The fees other emoluments paid to independent non-executive directors during the Period were as follows:

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Period ended June 30, 2011				
Independent non-executive directors				
Mr. Shi Cuiming	14	—	—	14
Mr. Lui Pan	14	—	—	14
Dr. Ma Kwai Yuen	18	—	—	18
	46	—	—	46

There were no emolument payable to the independent non-executive directors during the six months ended June 30, 2010.

(b) **Executive directors and non-executive directors**

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Period ended June 30, 2011				
Executive directors				
Mr. Zhao Bing	—	141	—	141
Mr. Meng Yuxiao	—	103	15	118
Mr. Deng Xuejun	—	42	15	57
Mr. Hung, Randy King Kuen	—	1,148	5	1,153
	—	1,434	35	1,465
Period ended June 30, 2010 (unaudited)				
Executive directors				
Mr. Zhao Bing	—	72	—	72
Mr. Meng Yuxiao	—	42	13	55
Mr. Deng Xuejun	—	42	13	55
Mr. Hung, Randy King Kuen	—	221	—	221
	—	377	26	403

The non-executive director was Mr. Song Zhiping during the Period. There was no emoluments payable to the non-executive director during the Period and the six month ended June 30, 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Period and the six months ended June 30, 2010.

(c) Five highest paid employees

The five highest paid employees during the Period included four directors (six months ended June 30, 2010: four), details of whose remuneration are set out in note 7(b) above. Details of the remuneration of the remaining one (six months ended June 30, 2010: one) non-director, highest paid employee during the Period are as follows:

	For the six months ended June 30	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Salaries, allowances and benefits in kind	**60**	60
Pension contributions	**—**	—
	60	60

The remuneration of the above non-director during the Period and the six months ended June 30, 2010 was below HK$1,000,000.

(d) During the Period and the six months ended June 30, 2010, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements

8. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the Period and the six months ended June 30, 2010.

The provision for PRC corporate income tax (the "CIT") is based on the CIT rate applicable to the subsidiary located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC for the Period and the six months ended June 30, 2010.

The major components of income tax expenses for the Period are as follows:

	For the six months ended June 30,	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Current — Mainland China charge for the Period	**18,397**	14,388
Deferred *(note 16)*	**2,137**	1,227
	20,534	15,615

A reconciliation of income tax expense applicable to profit before tax at the applicable tax rates for companies within the Group to income tax expense of the Group's effective income tax rate for the Period is as follows:

	For the six months ended June 30,	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Profit before tax	**120,236**	108,547
Tax at the applicable tax rate of 12.5%*	**15,030**	13,568
Effect of withholding tax at 10% on the distributable profit of Sifang Telecom *(note 16)*	**2,658**	1,254
Expenses not deductible for tax	**2,846**	793
Tax charge at the Group's effective tax rate	**20,534**	15,615

* Pursuant to the "Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises", and an approval document, "Shi Guo Shui Han [2007] No. 223" issued by Shijiazhuang State Tax Bureau on July 16, 2007, Sifang Telecom, as a manufacturing enterprise with foreign investment, is entitled to a full exemption from CIT for the two years ended December 31, 2007 and 2008 and a 50% reduction in CIT for three years ending December 31, 2009, 2010 and 2011.

On March 16, 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective on January 1, 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

In accordance with "Guo Fa [2007] No. 39" promulgated on December 26, 2007, from January 1, 2008, the enterprises that originally enjoyed the preference of regular income tax reduction and exemption will continue to enjoy the original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference. Accordingly, Sifang Telecom will continue to enjoy the existing tax holiday until it expires.

In this connection, Sifang Telecom, the Company's PRC subsidiary, is entitled to a preferential CIT rate of 12.5% in 2010 and 2011. Thereafter, it will be subject to the new CIT rate of 25%.

9. PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit and total comprehensive income attributable to owners of the Company for the Period includes a loss of RMB21,196,000 and RMB22,422,000, respectively (six months ended June 30, 2010: RMB5,597,000 and RMB5,768,000, respectively), which has been dealt with in the financial statements of the Company (note 26).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company for the Period of RMB99,702,000 (six months ended June 30, 2010: RMB92,932,000), and on the assumption that 900,000,000 shares of US$0.001 each issued and issuable comprising 1,559,454 shares in issue and 898,440,546 shares to be issued pursuant to the capitalization issue on June 3, 2011, as if the shares had been in issue throughout the Period ended June 30, 2011 (six months ended June 30, 2010: 900,000,000). The calculation of basic earnings per share for the six months ended June 30, 2010 has been adjusted retrospectively.

No adjustment has been made to the basic earnings per share amounts presented for the Period and the six months ended June 30, 2010 in respect of a dilution as the Group had no potentially dilutive ordinary share in issue during the Period and the six months ended June 30, 2010.

Notes to Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress (CIP) *RMB'000*	Total *RMB'000*
Cost:						
At January 1, 2011	82,147	312,623	3,559	2,079	152,042	552,450
Additions	—	725	2,034	43	123,564	126,366
Transferred from CIP	63,284	—	—	—	(63,284)	—
At June 30, 2011	145,431	313,348	5,593	2,122	212,322	678,816
Accumulated depreciation:						
At January 1, 2011	4,950	72,963	1,328	1,334	—	80,575
Provided for the period	1,280	14,882	172	153	—	16,487
At June 30, 2011	6,230	87,845	1,500	1,487	—	97,062
Net book amount:						
At December 31, 2010	77,197	239,660	2,231	745	152,042	471,875
At June 30, 2011	139,201	225,503	4,093	635	212,322	581,754
Cost:						
At January 1, 2010	79,521	265,978	3,315	2,079	96,312	447,205
Additions	434	40,015	110	—	20,420	60,979
At June 30, 2010 (Unaudited)	79,955	305,993	3,425	2,079	116,732	508,184
Accumulated depreciation:						
At January 1, 2010	2,693	47,089	1,015	1,020	—	51,817
Provided for the period	1,121	12,258	159	156	—	13,694
At June 30, 2010 (Unaudited)	3,814	59,347	1,174	1,176	—	65,511
Net book amount:						
At June 30, 2010 (Unaudited)	76,141	246,646	2,251	903	116,732	442,673

(a) The Group is in the process of applying building ownership certificate for one building which was built by the Group in 2009. The net book amount of this building was approximately RMB737,000 as of June 30, 2011 (December 31, 2010: RMB749,000). The Group's building can be sold, transferred or mortgaged when the relevant property certificate has been obtained.

(b) At the end of each reporting period, certain of the Group's property, plant and equipment have been pledged to secure the Group's interest-bearing bank loans and bank loan guarantees granted by independent third parties as follows (note 23):

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Secured for interest-bearing bank loans	**146,623**	134,657
Secured for bank loans guaranteed by:		
Hebei Lianchuang Guarantee Co., Ltd.	**47,735**	—
Hebei Baode Guarantee Co., Ltd.	**138,868**	194,326
	333,226	328,983

12. PREPAID LAND LEASE PAYMENTS

	June 30,	
	2011 *RMB'000*	2010 *RMB'000* (Unaudited)
Cost:		
At beginning of period	**27,244**	25,739
Additions during the period	**1,115**	1,505
	28,359	27,244
Accumulated amortization:		
At beginning of period	**1,030**	435
Amortization during the period	**333**	297
	1,363	732
Net book amount:		
At end of period	**26,996**	26,512
At beginning of period	**26,214**	25,304

As of June 30, 2011, prepaid land lease payments with a net book amount of RMB26,996,000 (December 31, 2010: RMB26,214,000) have been pledged to banks for bank loans granted to the Group (note 23).

Prepaid land lease payments represent the cost of land use rights in respect of certain leasehold land located in the Mainland China, which is held under a medium lease term.

Notes to Financial Statements

13. PAYMENTS IN ADVANCE

Payments in advance as of June 30, 2011 and December 31, 2010 were in respect of prepayments for the purchase of property, plant and equipment.

14. INVESTMENTS IN SUBSIDIARIES

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Unlisted investments, at cost:		
Sifang Telecom	**132,008**	132,008
Pacific Gain Technologies*	**—**	—
	132,008	132,008

* The cost of investment in Pacific Gain Technologies is HK$1.

The amounts due from/to a subsidiary included in the Company's current assets and current liabilities are unsecured, interest-free and repayable on demand. All amounts due from/to a subsidiary are denominated in US$.

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of establishment or incorporation	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Sifang Telecom	Mainland China April 9, 1998	RMB116,631,524	100	Manufacture and sale of fiber optic patch cords and other accessories
Pacific Gain Technologies	Hong Kong June 20, 2008	HK$1	100	Exporter of fiber optic patch cords

15. GOODWILL

Goodwill as of June 30, 2011 and December 31, 2010 arose on the acquisition of Sifang Telecom by the Company which represents the excess of the cost of the business combination over the Company's interest in the net fair value of Sifang Telecom's identifiable assets and liabilities as at the date of the acquisition.

Impairment testing of goodwill

Goodwill arising on the above acquisition was recognized in the consolidated statements of financial position as an asset, initially measured at cost and subsequently assessed for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets covering a five-year period with cash flows beyond the five-year period assumed to be stable. The discount rate applied to the cash flow projections is 10.4%.

Key assumptions were used in the value in use calculation of the cash-generating unit for the end of each reporting period. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the budgeted gross margins is based on the past performance and management's expectations for market development.

Discount rate — The discount rate used is post-tax and reflects specific risks relating to the relevant unit.

Capital structure — The capital structure of Sifang Telecom remains steady during the forecasted period.

The values assigned to key assumptions are consistent with external information sources.

16. DEFERRED TAX

The movements in deferred tax assets and liabilities are as follows:

Deferred tax assets

	Accrued expenses *RMB'000*
At January 1, 2011	1,219
Deferred tax credited to profit or loss during the Period *(note 8)*	521
At June 30, 2011	1,740
At January 1, 2010	984
Deferred tax credited to profit or loss during the period *(note 8)*	27
At June 30, 2010 (Unaudited)	1,011

Deferred tax liabilities

	Withholding taxes on distributable profit of Sifang Telecom *RMB'000*
At January 1, 2011	2,536
Deferred tax charged to profit or loss during the Period *(note 8)*	2,658
At June 30, 2011	5,194
At January 1, 2010	—
Deferred tax charged to profit or loss during the period *(note 8)*	1,254
At June 30, 2010 (Unaudited)	1,254

Pursuant to the resolution of the board of directors of Sifang Telecom dated August 24, 2011, Sifang Telecom will distribute dividend of not more than 25% of Sifang Telecom's distributable profit in respect of the Period to the Company and the remaining distributable profit of Sifang Telecom will be used for the business development of Sifang Telecom and will not be distributed to the Company. Therefore, a deferred tax liability of RMB2,658,000, representing 10% withholding tax on 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund), has been provided for during the Period.

In accordance with IAS 12, deferred tax assets are measured at the tax rates that are expected to apply to the period when the asset is realized. Therefore, for Sifang Telecom, deferred tax assets are measured at 12.5% or 25% depending on whether the assets are expected to be realized in 2011, or 2012 and subsequently, respectively.

17. INVENTORIES

	June 30, 2011 ***RMB'000***	December 31, 2010 *RMB'000*
Raw materials	**6,725**	4,823
Work in progress	**3,306**	17,854
Finished goods	**3,388**	2,351
	13,419	25,028

18. TRADE RECEIVABLES

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Trade receivables	**749,444**	563,668
Impairment	**—**	—
	749,444	563,668

Trade receivables are non-interest bearing and are generally on terms of 30 - 360 days.

An aging analysis of trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Within 1 month	**225,356**	47,515
1 to 3 months	**324,767**	194,206
3 to 6 months	**153,976**	186,730
6 to 12 months	**41,711**	127,958
12 to 16 months	**123**	4,324
Over 16 months	**3,511**	2,935
	749,444	563,668

The aging analysis of the trade receivables that are not considered to be impaired is as follows:

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Neither past due nor impaired	**745,810**	556,409
Past due but not impaired		
Less than 1 month past due	**3**	2,773
Over 1 month but within 3 months past due	**120**	10
Over 3 months past due	**3,511**	4,476
	749,444	563,668

Receivables that were neither past due nor impaired relate to a certain number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to certain independent customers. The directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As of June 30, 2011, certain trade receivables with an aggregate amount of RMB197,212,000 (December 31, 2010: Nil) have been pledged to secure the Group's interest-bearing bank loans (Note 23).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Notes	**June 30, 2011** *RMB'000*	December 31, 2010 *RMB'000*
Prepayments for purchase of raw materials		**36,995**	288
Guarantee deposit	*(a)*	**5,000**	3,500
Bidding deposit		**—**	2,177
Prepaid bank loan guarantee fee		**1,244**	280
Deferred listing fees	*(b)*	**11,668**	3,858
Others receivables		**1,346**	822
		56,253	10,925

Notes:

(a) The guarantee deposit represented the deposit paid to independent third parties for bank loan guarantees provided to the Group (Note 23).

(b) The deferred listing fees represent legal and other professional fees relating to the IPO and they will be deducted from equity when the Company completes the IPO in July 2011.

Company

As of June 30, 2011 and December 30, 2011, prepayments and other receivables mainly represented deferred listing fees incurred for the IPO as explained in (b) above.

None of the above assets is either past due or impaired. The financial assets included in the above relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Group

	June 30, 2011 RMB'000	December 31, 2010 RMB'000
Cash on hand	**16**	11
Cash at banks	**255,434**	128,784
	255,450	128,795
Less: Pledged bank deposits*	**(400)**	(1,200)
	255,050	127,595

* The pledged bank deposits at the end of each reporting period represented a bank deposit of the Group set aside for the application of the qualified supplier status for the supply of fiber optic patch cords to a telecommunication network operator.

At the end of the reporting period, the Group's cash and bank balances were denominated in the following currencies:

	June 30, 2011 RMB'000	December 31, 2010 RMB'000
RMB	**226,501**	115,143
HK$	**124**	132
US$	**28,825**	13,520
	255,450	128,795

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Company

At the end of each reporting period, the Company's cash and bank balances were denominated in the following currencies:

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
US$	**4,707**	13,385
HK$	**117**	125
	4,824	13,510

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and pledged bank deposits approximate to their fair values.

21. TRADE PAYABLES

An aging analysis of the trade payables at the end of each reporting period, based on the invoice date, is as follows:

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Within 3 months	**28,519**	15,729
3 months to 6 months	**8,290**	1,037
6 months to 1 year	**11,239**	1,648
Over 1 year	**2,044**	1,132
	50,092	19,546

The trade payables are non-interest-bearing and generally have credit terms ranging from 3 months to 1 year granted by the Group's creditors.

Notes to Financial Statements

22. OTHER PAYABLES AND ACCRUALS

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Payables related to:		
Taxes and surcharges	**264,425**	175,717
Payroll and welfare	**5,802**	4,423
Construction of property, plant and equipment	**18,047**	5,374
Professional fees relating to the IPO	**23,716**	—
Advance from government agencies	**1,500**	2,000
Others	**241**	249
	313,731	187,763
Accurals	**4,243**	1,637
	317,974	189,400

Other payables and accruals are non-interest-bearing and have average payment terms within one year.

23. INTEREST-BEARING BANK LOANS

	June 30, 2011 *RMB'000*	December 31, 2010 *RMB'000*
Repayable within one year:		
Guaranteed	**70,000**	70,000
Secured	**384,710**	203,500
	454,710	273,500
The bank loans bear interest at fixed rates per annum in the range of:	**5.35% to 7.57%**	6.11% to 7.43%

At the end of each reporting period, all interest-bearing bank loans of the Group were denominated in RMB. The carrying amounts of the Group's bank loans approximate to their fair values.

The above bank loans were guaranteed and secured by:

	June 30, 2011 RMB'000	December 31, 2010 RMB'000
Guaranteed by third parties (bank loans amount):		
— Hebei Baode Guarantee Co., Ltd. *(note 11)*	**50,000**	70,000
— Hebei Lianchuang Guarantee Co., Ltd. *(note 11)*	**20,000**	—
	70,000	70,000
Secured by (net book amount pledged):		
Trade receivables *(note 18)*	**197,212**	—
Property, plant and equipment *(note 11)*	**146,623**	134,657
Prepaid land lease payments *(note 12)*	**26,996**	26,214

24. DEFERRED INCOME

	June 30, 2011 RMB'000	June 30, 2010 RMB'000 (Unaudited)
At beginning of period	**5,300**	5,700
Released to profit or loss	**(200)**	(200)
At end of period	**5,100**	5,500

Deferred income represents government grants received for the purchase of items of property, plant and equipment that are used in the production of fiber optic patch cords, which is the Group's major product. The deferred income is released to profit or loss at the annual installments rate of 10% per annum to match with the expected useful lives of the relevant assets.

25. SHARE CAPITAL

	Notes	June 30, 2011 RMB'000	December 31, 2010 RMB'000
Authorized:			
10,000,000,000 (December 31, 2010: 35,000,000) ordinary shares of US$0.001 each	(a)	**64,716**	279
Issued and fully paid:			
1,559,454 (December 31, 2010:1,559,454) ordinary shares of US$0.001 each	(b)	**12**	12

(a) Pursuant to a written resolution approved by all the shareholders of the Company on June 3, 2011, the authorized share capital of the Company was increased from US$35,000 divided into 35,000,000 ordinary shares of US$0.001 each to US$10,000,000 divided into 10,000,000,000 ordinary shares of US$0.001 each.

(b) There was no change in the issued and fully paid capital of the Company during the Period.

26. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Period and the six months ended June 30, 2010 are presented in the consolidated statement of changes in equity on pages 24 to the financial statements.

(a) Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands. Under the constitutional documents and the Companies Law (Revised) of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) Statutory reserve fund

According to the relevant PRC regulations applicable to wholly-foreign owned enterprises, Sifang Telecom is required to allocate certain portion (not less than 10%) of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of its registered capital.

SRF is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or capitalized as paid-up capital.

Company

The amounts of the Company's reserves and the movements therein for the Period and the six months ended June 30, 2010 are as follows:

	Share premium *RMB'000*	Capital contribution reserve *RMB'000*	Foreign translation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At January 1, 2011	67,688	62,825	7,563	(30,510)	107,566
Total comprehensive loss for the period *(note 9)*	—	—	(1,226)	(21,196)	(22,422)
At June 30, 2011	67,688	62,825	6,337	(51,706)	85,144
At January 1, 2010	118,894	62,825	7,702	(20,605)	168,816
Total comprehensive loss for the period *(note 9)*	—	—	(171)	(5,597)	(5,768)
Dividend declared	(51,206)	—	—	—	(51,206)
At June 30, 2010 (Unaudited)	67,688	62,825	7,531	(26,202)	111,842

27. DIVIDENDS

At the meeting of the board of the directors held on August 30, 2011, the directors of the Company resolved not to pay an interim dividend to shareholders (six months ended June 30, 2010: Nil).

The one-off and non-recurring special dividend declared in 2010 amounting to RMB51,206,000 has been settled in July 2011.

28. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of each reporting period:

	June 30, 2011 ***RMB'000***	December 31, 2010 *RMB'000*
Contracted, but not provided for:		
— Plant and machinery	**63,889**	122,092

(b) Operating lease arrangements — As lessor

As lessor, the Group leases certain of its office buildings under operating lease arrangements for term of three years. At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	RMB'000
Within one year	200
In the second to fifth years, inclusive	700
	900

(c) Operating lease arrangements - As lessee

The Group leases certain of its office buildings under operating lease arrangements for terms of three years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	June 30, 2011 ***RMB'000***	December 31, 2010 *RMB'000*
Within one year	**687**	702
In the second to fifth years, inclusive	**543**	908
	1,230	1,610

29. CONTINGENT LIABILITIES

In the opinion of the directors, the Group had no significant contingent liabilities at the end of each reporting period.

30. RELATED PARTY TRANSACTIONS

(a) During the six months ended June 30, 2011, the Group had no significant non-recurring transactions with related parties.

(b) Compensation of key management personnel of the Group:

	For the six months ended June 30,	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Basic salaries and other benefits	**1,619**	521
Pension scheme contributions	**56**	43
	1,675	564

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group mainly include cash and cash equivalents, pledged bank balances, trade and other receivables, which arise directly from its operations. Financial liabilities of the Group include interest-bearing bank loans, trade payables, other payables and dividend payable. The main purpose of these financial liabilities is to raise finance for the Group's operations.

Risk management is carried out by the finance department which is led by the Group's senior management and supported by the finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main financial risks faced by the Group are liquidity risk, interest rate risk, credit risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The board regularly reviews these risks and they are summarized below.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans.

The maturity profile of the Group's financial liabilities at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	June 30, 2011				
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Interest-bearing bank loans	**—**	**86,262**	**380,459**	**—**	**466,721**
Trade payables	**—**	**40,074**	**10,018**	**—**	**50,092**
Dividend payable	**—**	**51,206**	**—**	**—**	**51,206**
Other payables and accruals	**—**	**316,474**	**1,500**	**—**	**317,974**
	—	**494,016**	**391,977**	**—**	**885,993**

	December 31, 2010				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans	—	151,531	130,144	—	281,675
Trade payables	—	15,729	3,817	—	19,546
Dividend payable	—	—	51,206	—	51,206
Other payables and accruals	—	187,400	2,000	—	189,400
	—	354,660	187,167	—	541,827

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing bank loans. The interest rates and terms of repayment of interest-bearing bank loans are disclosed in note 23. The Group manages its interest rate exposure arising from its interest-bearing loans through the use of fixed rates.

In addition, the Group does not consider that it has any significant exposure to the risk of changes in market interest rates as the Group does not have any long-term receivables and interest-bearing bank loans which are subject to floating interest rate.

Credit risk

The Group's principal financial assets are cash and cash equivalents, trade receivables and other receivables. Cash and cash equivalents are mainly deposits with state-owned banks in Mainland China. Credit risk is primarily attributable to the trade receivables.

As disclosed in note 4, the Group sells most of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. The Group manages this risk by maintaining a strict control over its outstanding receivables and senior management regularly reviews the overdue balances. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. During the Period and the six months ended 2010, the Group generated its revenue mainly from the sales of fiber optic patch cords that are used in a variety of application in the telecommunication industry, thereby, exposing the Group to the concentration of credit risk in the telecommunication industry.

The carrying amounts of trade receivables, other receivables, pledged deposits and cash and cash equivalents included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

In order to minimise credit risk, management continuously monitors the credit quality and financial condition of customers and the level of exposure by regular review of the credit evaluation of customers and suppliers to ensure that prompt action is taken to recover overdue debts and to lower exposure. Management evaluates the credit quality and financial conditions of the Group's suppliers based on their financial results, press releases and informal communications from time to time when they are aware of any unusual conduct or event in relation to suppliers. In respect of the credit quality and financial conditions of customers, the Group adopted and will continue to implement a customer appraisal program to review its receivables, assess each customer's credibility and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group's Directors consider that credit risk is significantly reduced.

Foreign currency risk

The Group's businesses are mainly located in the Mainland China with export sales settled in US$ and domestic sales settled in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain trade receivables that are denominated in US$, mainly arising from export sales conducted by the Group, which expose the Group to foreign currency risk.

The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. Management monitors the Group's foreign currency exposure and will consider hedging significant foreign currency exposure when the needs arise.

The following table demonstrates the sensitivity to a 5.0% change in RMB against US$. The 5.0% is the rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign currency rate. The sensitivity analyses of the Group's exposure to foreign currency risk at the end of each reporting period have been determined based on the adjustment of translation of the monetary assets at the end of each reporting period for a 5.0% of change in RMB against US$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of cash and cash equivalents and trade receivables denominated in US$).

	For the six months ended June 30,	
	2011	2010
	RMB'000	*RMB'000*
		(Unaudited)
Increase/(decrease) in profit before tax:		
If RMB weakens against US$	**4,089**	4,332
If RMB strengthens against US$	**(4,089)**	(4,332)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt includes interest-bearing bank loans, trade and notes payables, other payables and accruals, tax payable, dividend payable and an amount due to a related party less cash and cash equivalents. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios at the ends of the reporting periods were as follows:

	June 30, 2011	December 31, 2010
	RMB'000	*RMB'000*
Interest-bearing bank loans	**454,710**	273,500
Trade payable	**50,092**	19,546
Other payables and accruals	**317,974**	189,400
Tax payable	**64,580**	47,570
Dividend payable	**51,206**	51,206
Less: Cash and cash equivalents	**(255,050)**	(107,595)
Net debt	**683,512**	453,627
Equity	**774,963**	677,429
Equity and net debt	**1,458,475**	1,131,056
Gearing ratio	**47%**	40%

Notes to Financial Statements

32. EVENTS AFTER THE REPORTING PERIOD

On July 14, 2011, following the completion of the Global Offering and the Capitalization Issue (as defined in the Company's prospectus), an aggregate of 1,200 million shares of US$0.001 each of the Company were allotted and issued, credited as fully paid at par to the Company's shareholders at the date.

In connection with the Global Offering of 300,000,000 shares of US$0.001 each were issued at a price of HK$1.20 per share for a total cash consideration, before offering costs, of HK$360,000,000.

The Company's shares have been listed on the Main Board of the Stock Exchange since 14 July 2011.

On July 18, 2011, the Over-allotment Option (as defined in the Company's prospectus) has been partially exercised with 17,300,000 new shares being allotted and issued by the Company at a price of HK$1.20 per share for a total cash consideration, before offering costs, of HK$20,760,000.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on August 30, 2011.