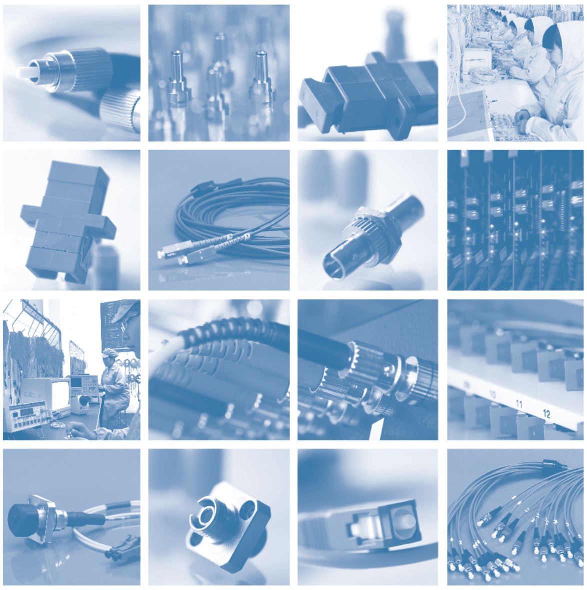
CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3777

Annual Report 2011



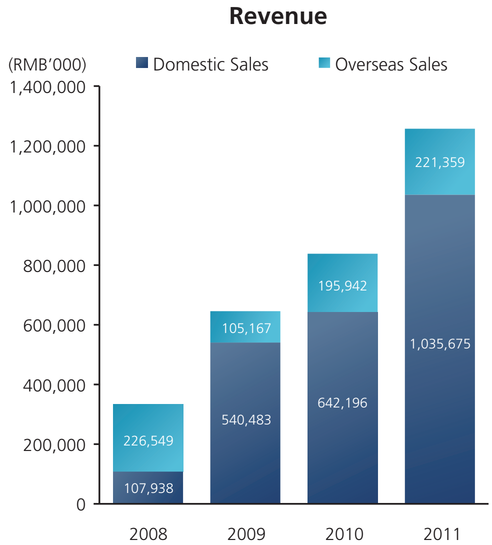
Contents

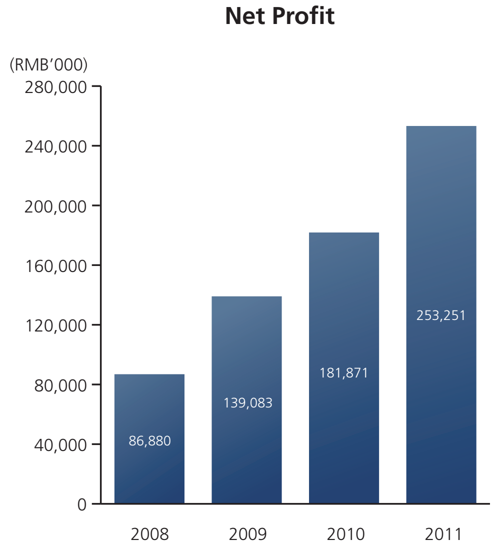
Financial Highlights

For the year ended December 31, 2011, operating results of the Group were as follows:

- Revenue reached RMB1,257,034,000, representing an increase of 50.0% from last year;
- Gross profit margin was 31.8% as compared to 32.0% of last year;
- Profit for the year amounted to RMB253,251,000, representing an increase of 39.2% from last year;
- Basic and diluted earnings per share, based on weighted average number of ordinary shares of 1,047,593,973 shares in issue, as adjusted to reflect the capitalization issue during the year, was RMB24.2 cents;
- The Board recommended not to declare final dividend for 2011 but resolved to adopt a policy to declare dividend commencing fiscal year 2012.

Financial Highlights





	Year ended December 31			
	2008	2009	2010	**2011**
Gross Profit Margins				
Fiber Optic Patch Cords (Domestic)	22.5%	26.8%	25.3%	**26.2%**
Fiber Optic Patch Cords (Overseas)	59.6%	52.8%	53.9%	**57.9%**
Overall	47.6%	31.0%	32.0%	**31.8%**
Effective Tax Rate				
Effective Tax Rate	nil	12.7%	14.2%	**15.2%**
Net Profit Margin				
Net Profit Margin	26.0%	21.5%	21.7%	**20.1%**
Financial Position				
Total Assets (RMB'000)	531,962	948,421	1,266,487	**2,198,299**
Total Liabilities (RMB'000)	122,764	400,302	589,058	**978,289**
Net Assets (RMB'000)	409,198	548,119	677,429	**1,220,010**
Gearing Ratio	17%	34%	40%	**24%**
Working Capital Cycles				
Return on Equity	21.2%	25.4%	26.8%	**20.8%**
Trade Receivable Turnover Days	58	135	207	**191**
Trade Payables Turnover Days	23	32	27	**27**
Inventory Turnover Days	30	8	11	**11**

Company Overview

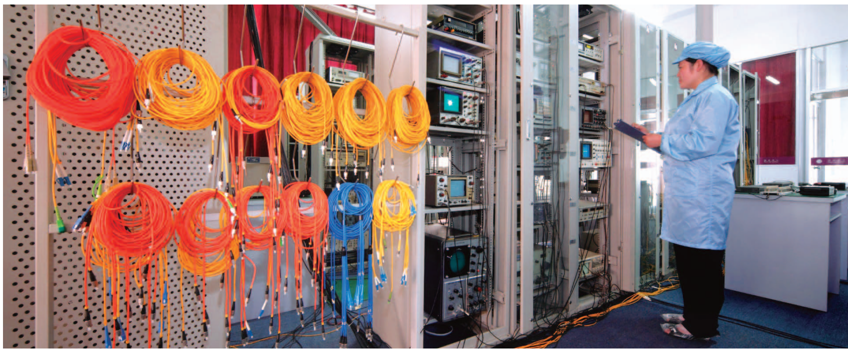
China Fiber Optic Network System Group Ltd. ("the Company"), together with its subsidiaries ("the Group") is the largest manufacturer of fiber optic patch cords in China in terms of sales volume and production capacity.

The Group produces and sells a comprehensive portfolio of fiber optic patch cords with more than 100 different models used in a variety of applications in the communications and other industries. In addition to fiber optic patch cords, the Group also produces connection and distribution products and equipment room accessories.

Currently, the Group has eight fiber optic patch cord production lines in Shijiazhuang, Hebei Province, with annual production capacity of 12 million sets of fiber optic patch cords.

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
December 31

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Suite 2001, 20th Floor
Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

PRODUCTION FACILITIES IN THE PRC
Alishan Avenue
Economic and Technological Development Zone
Shijiazhuang, Hebei Province, China

COMPANY'S WEBSITE
www.chinafiberoptic.com

INVESTOR RELATIONS CONTACT
Mr. Hung, Randy King Kuen
Executive Director & 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 Director
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

Corporate Information

NOMINATION COMMITTEE (Formed on March 18, 2012)

Mr. Shi Cuiming
(Chairman of Nomination Committee)
Dr. Ma Kwai Yuen
Mr. Zhao Bing

AUTHORIZED REPRESENTATIVES

Mr. Hung, Randy King Kuen
Mr. Meng Yuxiao

COMPANY SECRETARY

Mr. Hung, Randy King Kuen

LEGAL ADVISORS 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, Shijiazhuang 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

Chairman's Statement

Dear Shareholders,

The Group had a remarkable year of 2011. In the midst of uncertainty in the capital markets, the Group completed its initial public offering last July. Our revenue for 2011 reached RMB1.26 billion and profit has surged 39.2% to RMB253 million. According to an independent market survey, our domestic market share of fiber optic patch cord surged to 21.4% in 2011, as compared to 18.6% in 2010.

Over the years, the Group has garnered a reputation for consistently delivering innovative products. We are recognized for our commitment to quality, service and dependability, earning ourselves the reputation of being the leading provider in the industry. While our business outlook is promising, there are also multi-dimensional challenges that are ahead of us. Our growth potential will ride on our abilities to further expanding production capacity, recruiting and retaining skilled workers, penetrating new international markets, and securing additional bank financing.

During 2011, our production capacity had limited not only our ability to accept larger orders, but also potential to take on more new customers. Accordingly, we out-sourced certain non-core production processes to independent contractors. However, outsourcing is feasible if the ordered products require lower technical specifications. In addition, outsourcing may cast risks related to confidentiality and reliance on third parties, and therefore would not be a preferred solution in the long run. Toward the end of 2011, we completed the addition of two new production lines to bring up production capacity by 35% to 12 million sets of fiber optic patch cords per annum. Production utilizing the new capacity had commenced in February 2012 upon completion of a series of training for new production workers. Yet, manufacturers are migrating away from the coastal area regions. Several large companies built their new factories in Shijiazhuang and are competing with us on skilled production workers. While we are going to build additional production lines in 2012 to capture market opportunity, shortage of labor could affect our expansion plan and driving up our staff costs.

The European sovereign debt crisis casts unprecedented doubt on the financial system in the country where one of our major oversea customers is located. We have been extremely cautious on the effect from tightening of credit by European banks to local businesses. Coupling with limited production capacity, we decided to take less orders from our European customer as a risk management measure. Hence, total oversea sales grew only 13.0% in 2011. We note that the Group's export business is too concentrated and therefore have been making effort to diversify to other international markets. Our goal is to penetrate one new country each year.

In 2011, bank credit in China was tightened as a result of austerity measure adopted by the Chinese government. At the same time, interest rate in China has been in an upward trend. As bank loans will continue to be our primary financing mean, abilities to secure bank financing and curbing rising interest expense are essential to sustain our growth and profitability. At the time of writing, the Chinese government had announced its decision to lower the country's GDP growth target for 2012. Whether tightening of bank credit will continue remain uncertain. To cope with the situation, the Group has been in discussion with commercial banks in Hong Kong for our financing needs. Financing denominated in Hong Kong dollar or US dollar will generally be offered in a lower interest rate than Renminbi loan, and undoubtedly a healthy addition to the Group's capital structure. Hence, one of our focuses in 2012 will be to securing bank financing in Hong Kong to facilitate our working capital need.

Chairman's Statement

Demand of fiber optic patch cords is no doubt in a growing trend. Global market size of fiber optic patch cords is now estimated to increase from USD2.69 billion in 2011 to USD4.58 billion by 2015. The Group's business will continue to be driven by the rising demand in the communication industry with China's rapid deployments of FTTx, three-network integration and increasing 3G wireless communication coverage. As broadband subscribers and data traffic surge significantly given the rapid development of internet applications, and online media, telecommunication, and broadcasting and television network operators in China are accelerating the expansion and upgrade of their fiber optic networks. As fiber optic patch cords are key building blocks for fiber optic networks, outlook for our business is promising.

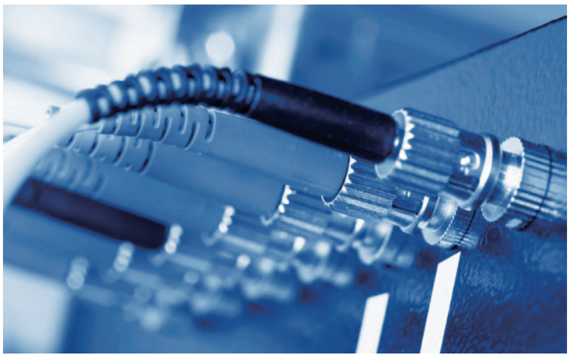
In the coming five years, our goal is to become one of major global providers of fiber optic patch cords. Our business plan calls for expanding our product pipeline to cater for the future applications in telecommunication sector and other specialized communication networks. We will accelerate our penetration of international market via corroboration with local integrators and telecom operators. We will continue to recruit new talents in all areas to strengthen our core competence. The years ahead of us will be ample in opportunities and challenges. Together with our fellow board members and senior management, we look forward to deliver another fruitful year in 2012.

On behalf of the board of directors of the Company, I would like to express our gratitude and appreciation to our management team and our staff for their dedication and hard work in pursuing the Group's success in 2011. Our thanks also extend to all the shareholders and our other stakeholders for their ongoing support, trust and confidence in the Group.

Zhao Bing
Chairman

Hong Kong, March 19, 2012

Management Discussion and Analysis



OVERVIEW

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.

For the year ended December 31, 2011, the Group's revenue reached RMB1,257,034,000, representing an increase of 50.0% from last year. Fiber optic patch cords demanded by telecom network operators and broadcasting and television network operators in China continued to accelerate. Revenue from domestic sales increased 61.3% from last year as our domestic customers continues to build and upgrade their fiber optic networks.

The Group's profit for the year ended December 31, 2011 increased 39.2% to reach RMB253,251,000.

Earnings per share for the year ended December 31, 2011, calculated based on weighted average number of ordinary shares of 1,047,593,973 in issue, as adjusted to reflect the capitalization issue during the year, was RMB24.2 cents.

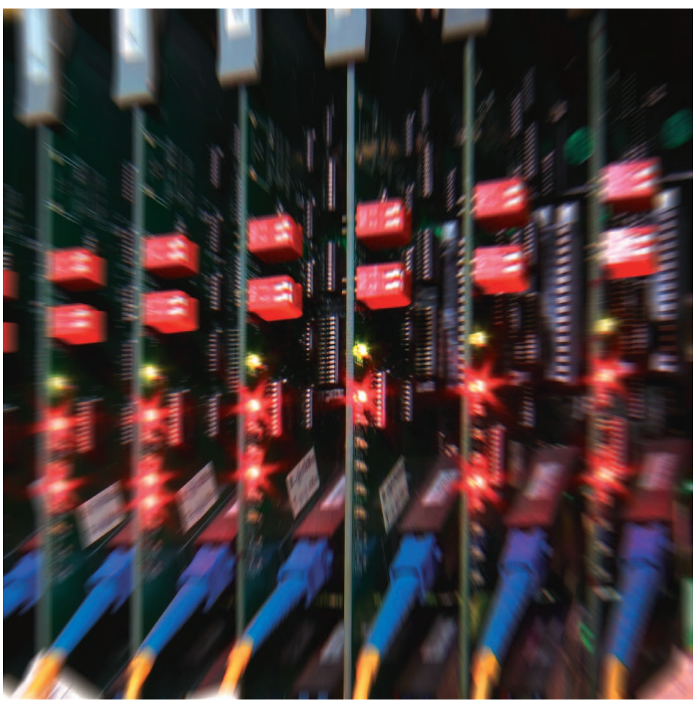
Management Discussion and Analysis

REVENUE

Revenue by product category for the year is set forth below:

	Year ended December 31,		
	2011	2010	Growth
	RMB'000	*RMB'000*	
Fiber optic patch cords	**1,233,500**	785,312	57.1%
Connection & distribution products	**11,532**	41,344	(72.1%)
Equipment room accessories	**12,002**	11,482	4.5%
	1,257,034	838,138	50.0%

The Group is the largest manufacturer of fiber optic patch cords in China 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.



Management Discussion and Analysis

DOMESTIC AND OVERSEAS SALES

During the year, 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:

	Year ended December 31,		
	2011	2010	Growth
	RMB'000	*RMB'000*	
Domestic sales — fiber optic patch cords	**1,012,141**	589,370	71.7%
Domestic sales — other products	**23,534**	52,826	(55.4%)
	1,035,675	642,196	61.3%
Oversea sales — fiber optic patch cords	**221,359**	195,942	13.0%
	1,257,034	838,138	50.0%

Our domestic sales of fiber optic patch cords increased significantly since telecom as well as broadcast and television network operators have been building and upgrading their fiber optic networks according to market demand.

Oversea sales consisted of fiber optic patch cords shipped to customers in Ireland and New Zealand were RMB3,295,000 and RMB218,064,000 during 2011, as compared to RMB81,334,000 and RMB114,608,000 in 2010.

DOMESTIC SALES BY CUSTOMER TYPE

The following table shows the breakdown of revenue derived from domestic sales of our products to customers in China:

	Year ended December 31,		
	2011	2010	Growth
	RMB'000	*RMB'000*	
Telecom network operators	**852,288**	514,337	65.7%
Broadcast and television network operators	**72,638**	48,657	49.3%
Specialized communication networks	**22,718**	39,179	(42.0%)
Others	**88,031**	40,023	120.0%
	1,035,675	642,196	61.3%

Fiber optic patch cord is 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 fiber to the home subscribers by 30 million in 2011, 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 their network with fiber optics in the 54 cities announced for pilot trial of the "Integration of Three Networks" in preparation for the cessation of analogue television broadcast 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

SALES VOLUME & AVERAGE SELLING PRICE

The following summaries sales volume & average selling price of our fiber optic patch cords for 2010 and 2011:

	2011		2010	
	Sales volume (Sets)	**Average Unit Price**	Sales volume (Sets)	Average Unit Price
Fiber optic patch cords — domestic	**17,263,693**	**RMB58.6**	10,227,334	RMB57.6
Fiber optic patch cords — oversea model #1	**615,000**	**US$55.0**	530,000	US$55.0
Fiber optic patch cords — oversea model #2	**50,000**	**US$17.0**	—	—
	17,928,693		10,757,334	

During 2011, the Group sold a total of 17,928,693 sets of fiber optic patch cords of which 12,928,693 sets were entirely produced by the Group and 5,000,000 sets were made by outsourcing certain non-core production process to independent contractors.

PRODUCTION CAPACITY

The Group completed the construction of two new production lines of fiber optic patch cords to increase its annual production capacity from 9 million sets to 12 million sets by the end of 2011. Utilization of such new capacity had commenced in February 2012 upon completion of training for new production workers.

The Group is also adding 9 production lines to increase production capacity of soft optical cables from 13,000 km to 130,000 km. As of December 31, 2011, the additions of 4 production lines were completed, and the remaining 5 will be added in 2012.

Management Discussion and Analysis

GROSS PROFIT MARGIN

Overall gross profit margin of the Group in 2011 was 31.8%, as compared to 32.0% for 2010. The slightly lower overall gross profit margin was due to change 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 82.4% of total revenue for the year of 2011 as compared to 76.6% of last year.

The following table shows the Group's gross profit margins separately for domestic and overseas sales:

	Year ended December 31,	
	2011 Gross profit margin	2010 Gross profit margin
Domestic sales	**26.2%**	25.3%
Overseas sales	**57.9%**	53.9%

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 RMB57.6 to RMB58.6 per set. For oversea sales of fiber optic patch cords, the Group commenced to sell one more model with an average selling price of USD17 per set during 2011. The average selling price for the existing model has remained the same as USD55 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 in 2012.

OTHER INCOME

Other income, which mainly comprised of government grants and bank interest income increased by 102.7% to RMB3,660,000 from last year. The increase was mainly due to the increases in bank interest income.

SELLING AND DISTRIBUTION COSTS

During 2011, selling and distribution costs of the Group increased 15.3% to RMB9,114,000 from 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 in 2011 was mainly due to the increases in the transportation fees and advertisement expenses.

Selling and distribution costs were 0.9% and 0.7% of revenue for the year ended December 31, 2010 and 2011 respectively.

ADMINISTRATIVE EXPENSES

Administrative expenses increased 97.8% to RMB67,438,000 in 2011. Administrative expenses 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 over RMB20 million.

Wages and salaries paid to management and administrative personnel increased from RMB5,266,000 to RMB13,364,000 during 2011 as a results of appointments of new board members, increase in salaries of management, increase in staff head count and the amortization of equity-settled share option.

Professional fees increased from RMB13,745,000 to RMB23,974,000 as the Group booked most of its IPO related professional fees in the year of 2011.

Research and development costs were RMB4,000,000 and RMB4,600,000 for the year of 2010 and 2011 respectively. The Group has 46 registered patents as of December 31, 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 RMB2,453,000 and RMB10,923,000 for the year of 2010 and 2011 respectively.

Administrative expenses accounted for 4.1% and 5.4% of total revenue respectively for the year of 2010 and 2011.

FINANCE COSTS

Finance costs primarily consisted of interest expenses relating to the Group bank loans and bank loan guarantee expenses. For the year of 2010 and 2011, finance costs accounted for 1.9% and 2.2% of total revenue respectively.

Finance costs increased by 73.3% to RMB27,467,000 as compared to 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 ranging from 6.1% to 7.4% and 6.1% to 13.1% as of December 31, 2010 and 2011 respectively.

INCOME TAX

Income tax expenses increased 51.9% to RMB45,559,000 during the year of 2011. The increase was in line with the increase in profit.

The effective tax rates for the year of 2010 and 2011, after adding back the non-recurring IPO related professional fees, were 13.3% and 14.2% respectively. The increase in effective tax rate was because the proportion of profit derived from the Group's wholly owned subsidiary, Hebei Sapphire Communication Equipment Co., Ltd. ("Sifang Telecom"), in the consolidated profit increased from 61.2% to 70.9% in the year 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 year 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.

EARNINGS PER SHARE

The Group completed its IPO on July 14, 2011. The total number of shares outstanding as of January 1, 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.

The following table shows the movement of shares outstanding for the year:

	Date	Number of Shares	Outstanding Days	Weighted Average Number of Shares
Opening	January 1, 2011	1,559,454	365 days	1,559,454
Capitalization issue	June 3, 2011	898,440,546	365 days	898,440,546
IPO — allotment	July 14, 2011	300,000,000	170 days	139,726,028
IPO — over-allotment	July 18, 2011	17,300,000	166 days	7,867,945
Ending	December 31, 2011	1,217,300,000		1,047,593,973

Earnings per share for the year ended December 31, 2011, was calculated based on weighted average number of ordinary shares of 1,047,593,973 in issue, as adjusted to reflect the capitalization issue during the year, was RMB24.2 cents.

FINAL DIVIDEND

The Board of Directors of the Company ("the Board") recommended not to declare of final dividend for the year ended December 31, 2011.

DIVIDEND POLICY

The Board believes that a clear dividend policy is important to our investors. Therefore the Board had resolved to adopt a policy of paying dividend commencing fiscal year 2012.

CAPITAL STRUCTURE

During the year, 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 January 1, 2011 to 1,217,300,000 shares as of December 31, 2011. In addition, borrowings from banks also increased from RMB273,500,000 to RMB497,500,000 during the year.

The Group monitors capital structure using a gearing ratio, which is net debt divided by equity plus net debt. Net debt includes interest-bearing bank loans, trade and notes payable, other payables and accruals, tax payable and dividend payable less cash and cash equivalents and pledged bank balances. 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 2011 were 40% and 24%, respectively.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2011, cash and bank balances of the Group amounted to RMB581,590,000 which comprised of RMB578,131,000 and others being equivalent to RMB1,769,000 and RMB1,690,000 denominated in HK dollars and US dollars respectively.

The Group has historically financed our operations through cash from operating activities and bank borrowings. Moving forward, we expect to use 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, directors of the Company ("the Directors") are of the opinion that the Group has sufficient working capital to meet our requirement for future development.

USE OF NET PROCEEDS FROM THE IPO

The Company commenced its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on July 14, 2011. Since then, the Group has been utilizing net proceeds from the IPO in the manner set out in the supplemental prospectus dated June 27, 2011. As of December 31, 2011, a portion of net proceeds from the IPO remained in a bank in Hong Kong awaiting for the regulatory approval to inject funds into the Company's subsidiary in China.

TRADE RECEIVABLES

Under the contracts with our domestic customers, the Group typically receives 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. The Group offers credit terms ranging from three months to one year to major telecommunications network operators in China. For oversea customers, the Group typically receives 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 33.3% from RMB563,668,000 at the end of last year to RMB751,093,000 as at December 31, 2011. The increase in trade receivables was primarily due to increase of 50.0% of revenue.

Trade receivable turnover days were 207 days and 191 days for the year ended December 31, 2010 and 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 year ended December 31, 2011.

There were no bad debt provisions made on trade receivables for the years ended December 31, 2010 and 2011.

As of December 31, 2011, there were RMB70,356,000 of trade receivable over 180 days from the date of invoice. Payments of the entire amount were collected by the end of March 2012.

INVENTORIES

Inventories as at December 31, 2011 which mostly comprised of raw materials and work in progress amounted to RMB28,424,000 as compared to RMB25,028,000 as at December 31, 2010.

Inventory turnover days were 11 days and 11 days for the years ended December 31, 2010 and 2011.

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

CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB334,749,000 for the year ended December 31, 2011, which were mostly related to construction of production facilities and purchasing of equipments and machinery to expand our production capacity. Capital expenditures were primarily funded by the IPO proceeds, net cash generated from operation and bank financing during 2011. For 2012, the Group expects to earmark additional capital expenditures of not more than RMB100,000,000 to further increase production capacities and research capabilities of fiber optic patch cords. These capital expenditures will be funded by remaining balance of the IPO proceeds, as well as cash generated from operation and additional bank financing.

TRADE AND NOTES PAYABLE

Trade and notes payable as at December 31, 2011 was RMB105,248,000 as compared to RMB19,546,000 as at December 31, 2010. The increase in trade and notes payable was primarily due to the increase in volume of goods produced.

Trade and notes payable turnover days were 27 days and 27 days for the years ended December 31, 2010 and 2011.

INDEBTEDNESS

As of December 31, 2011, our total bank loans amounted to RMB497,500,000. Please refer to Note 23 to the audited account for more detail of our bank loans as of December 31, 2011.

The effective interest rates of our bank loans per annum were 6.1% to 7.4% and 6.1% to 13.1% as of December 31, 2010 and December 31, 2011 respectively.

OTHER PAYABLES AND ACCRUALS

Other payables and accruals balance of RMB280,202,000 consists mostly of taxes payable other than income tax, and payable to and construction contractors and equipment vendors. The increase in balance was mainly due to the increase in value added tax payable.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at December 31, 2010 and 2011.

Management Discussion and Analysis

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

There were no significant investments held, material acquisitions, or disposals of subsidiaries during 2011. And save for those disclosed in this report, there was no plan authorised by the Board for other material investments or additions of capital assets as at December 31, 2011.

CHARGES ON ASSETS

As of December 31, 2011, the Group had pledged RMB587,198,000 (December 31, 2010: RMB355,197,000) of our Group's assets in order to secure banking facilities or bank loans, which were used to finance daily business operation.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

As at December 31, 2011, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Except for the trade receivable denominated in US dollars equivalent to RMB239,366,000, the Group is not exposed to any material interest and exchange risks.

RELATED PARTY TRANSACTIONS

The Group had not entered into any significant related party transactions during 2010 and 2011.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As of December 31, 2011, the Group did not have any off-statement of financial position arrangements.

EMPLOYEES AND STAFF COSTS

The Group had 288 and 408 employees as at December 31, 2010 and 2011 respectively. Total staff costs, including Directors' remuneration and stock option expenses were RMB8,194,000 and RMB16,654,000 respectively for 2010 and 2011.

Directors' remuneration was RMB6,797,000 for 2011 (2010: RMB1,134,000), including equity-settled share option expense of RMB3,435,000. Detail of Directors' remuneration are disclosed on page 72 to page 74 of this annual report.

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

Management Discussion and Analysis

OUTLOOK

As a market leader of fiber optic patch cords in China, the Group is the trusted partner for telecom and cable operators' fiber optic networks and mobile base station deployments. Under the "Opinions to promote the construction of optical fiber broadband network" jointly issued by seven ministries of the Ministry of Industry and Information Technology in 2010, a total of RMB150 billion in fiber optical network construction between 2011 to 2013. China's 12th Five-Year Plan further reiterated that the country will promote broadband access in city areas and also accelerate broadband penetration in rural areas. Momentum for massive upgrade from copper wire coaxial cable to fiber optic network by cable television operators in China is also accelerating. The State Council had announced another 42 cities in the end of 2011 to pilot the tri-network convergence, with the goal for all cable television operators in China to transmit data and media via digital signal by 2015. For the mobile network, while 3G coverage have covered county level and above cities in China, more work are ahead to improve coverage in second- and third-tier cities and indoor. Fiber optic patch cord is an essential component of fiber optic networks. With the increasing popularity of multimedia content and applications, demand for fiber optic patch cords will remain strong in the foreseeable future. According to an independent market survey, China's market size for fiber optic patch cords in 2012 will increase by 22.7% to RMB4.48 billion. By 2015, it is estimated to reach RMB6.79 billion.

While the Group remains bullish on market outlook, we also see threats heading toward us.

Several large companies had established new production facilities in Shijiazhuang last year and have been competing with the Group on recruiting local skilled production workers. This has inevitably slowed down our plan in expanding production capacity as recruiting and retaining factory workers, that require multi-months in-house technical training, become more difficult. While the Group has started to initiate measures such as increasing wages and recruiting outside of Hebei province, the Group remains cautious on such shortage in local production labor and is currently assessing other alternatives.

The booming demand on fiber optic patch cords has inevitably induced new entrants. Recent news reported that a number of new manufacturers were providing low price fiber optic patch cords in 2011 and telecom operators had expressed deep concern on the quality and maintainability of those low price fiber optic patch cords. Accordingly the Group believes that telecom operators will revisit their procurement practices and place immense emphasis on technical benchmark and quality of fiber optic patch cords. A new round of consolidation among fiber optic patch cord producers is forthcoming.

The European sovereign debt crisis and tightening of credit by European banks to local businesses has caused our sales to a major customer located in that region to decline significantly. While outlook for resolving the sovereign debt issue appears to be in order in the short run, it is still uncertain whether the tightening of credit by European banks will cease, and would inevitably affect our growth momentum in overseas sales. The Group acknowledges that our oversea sales is concentrated in two foreign countries and therefore have started to corroborate with new partners in other international markets. Our goal is to penetrate one new country each year.

Being the largest manufacturer of fiber optic patch cords in China, the Group is poised to be benefited by the growing market demand in both domestic and overseas markets. We have increased our production capacity by 35% to 12 million sets of fiber optic patch cords per annum. We will continue to further expand our production capacity in 2012 to up to 18 million set of fiber optic patch cords per annum, subject to our ability to recruit and retain production workers. We are working on new projects to expand our product pipeline. By corroborating with renowned research institutes, the Group is developing products and new models for future fiber optic infrastructure. To diversify our customer base, more tailored made models will be introduced for specialized networks in the coming years.

To tap the growing demand of fiber optic patch cords, we are setting up a new office in Beijing and soon in other cities to expand our market coverage in China. For oversea sales, we will offer more models and make moves to penetrate one new international market each year. With strong foothold in China, the Group is determined to become a major provider of fiber optic patch cords to the world within the next 5 years.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's auditors the annual 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 year ended December 31, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from its listing on July 14, 2011, to the date of this annual 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 annual report.

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 as of December 31, 2011.

During the year, neither the Company nor any of its subsidiaries has purchased or redeemed any of the Company's listed securities.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhao Bing, aged 41, has been our chairman and executive director since September 27, 2007. Mr. Zhao is primarily responsible for the overall strategic planning and general management of our company. Mr. Zhao became a controlling shareholder and the chairman of Sifang Telecom in 1999 and has served on a number of key positions within our Group, including the general manager, the chief executive officer and the legal representative of Sifang Telecom.

Mr. Zhao has over 18 years of experience in the communications industry. Mr. Zhao has considerable experience and expertise in the fields of telecommunications and technology. Prior to joining Sifang Telecom, Mr. Zhao worked at Gaocheng Post and Telecommunications Bureau, a state-owned enterprise in Hebei Province, now known as the Gaocheng Branch of China Unicom, from 1994 to 1998. After Mr. Zhao joined Sifang Telecom in 1999, he has continued to pursue the development of telecommunications technology and to explore business opportunities in this field, including fiber optic patch cords. Mr. Zhao received a bachelor's degree in applied electronic technology from Beijing University of Posts and Telecommunications in 1994.

Mr. Meng Yuxiao, aged 48, has been our executive director since February 28, 2008. Mr. Meng is in charge of overseas sales, financing and capital operations of our company, and assists in the strategic planning, operations and management of our company. Mr. Meng joined Sifang Telecom in 2002 and held the positions of vice general manager and director from 2002 to 2011. Prior to joining us, Mr. Meng worked as a deputy director of the Economic and Technical Cooperation Centre of the Development and Reform Commission of Hebei Province from 1998 to 2002. Mr. Meng has nearly 11 years of experience in overseas sales, financing and management. Mr. Meng received a bachelor's degree in metallurgy material from Hebei University of Science and Technology in 1986.

Mr. Deng Xuejun, aged 44, has been our executive director since March 16, 2010. He joined Sifang Telecom in 2004 and has served as a vice general manager of Sifang Telecom since September 2004. Mr. Deng oversees production, sales and marketing of Sifang Telecom. He has over 11 years of experience in sales and marketing and management. He served as a general manager at Mianhong International Sales Corporation, now known as Shijiazhuang Hongyuan Sales Corporation from 1996 to 2001. From 1993 to 1996, Mr. Deng served on several positions at Changshan Textile Group, including the general manager for business development and the vice general manager for the sales company. Mr. Deng graduated from the department of international commerce at Nankai University in 1999.

Mr. Hung, Randy King Kuen, aged 46, has served as our executive director, chief financial officer and company secretary since May 1, 2010, and is responsible for our corporate finance and investor relations. Prior to joining our company, Mr. Hung served as an executive director of China Shineway Pharmaceutical Group Limited (stock code 2877), a modern Chinese medicines manufacturer listed on the Stock Exchange, from June 2005 to April 2010 and subsequently appointed as non-executive director since June 1, 2011. He is currently an independent non-executive director of Zhongyu Gas Holdings Limited (stock code 8070). Mr. Hung also served as an independent non-executive director of Zhongtian International Limited (stock code 2379), a natural gas provider and a software developer listed on the Stock Exchange until April 2011. Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, an executive committee member of the Hong Kong Investor Relations Association and a council member of the Hong Kong Institute of Directors. Mr. Hung holds an MBA degree from the University of London, a bachelor's degree of science in accounting and a certificate in programming and data processing from the University of Southern California. He also completed a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in Corporate Finance.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Song Zhiping, aged 58, has been our non-executive director since June 21, 2007. Mr. Song was nominated by Wakee, one of our shareholders. Mr. Song is also an executive director of Wakee and the chairman of Kunlun Investment Company Ltd.. He has nearly 21 years of experience in commercial trading, real estate and investment. Mr. Song graduated from Tianjin University in 1976, studying in radio engineering.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shi Cuiming, aged 72, has been our independent non-executive director since June 3, 2011. Mr. Shi currently serves as a senior consultant and had acted as the chairman of the board and executive director of CITIC 1616 Holdings Limited (stock code 1883) from 2004 to 2009, a company listed on the Stock Exchange. He is also an independent non-executive director of China GrenTech Corporation Limited (stock code 4812), a company listed on the NASDAQ Exchange. From 2000 to 2004, he was an executive director and executive vice-president of China Unicom Limited (stock code 0762), a company listed on the Stock Exchange. Mr. Shi was the chairman of the board and the CEO of China Telecom (Hong Kong) Group Limited, now known as China Mobile Limited (stock code 0941) from 1997 to 1999. Both companies are listed on the Stock Exchange and the New York Stock Exchange. He was also an independent non-executive director of TCL Communication Technology Holdings Limited (stock code 2618), a company listed on the Stock Exchange from 2004 to 2011. From 1981 to 1997, Mr. Shi held various positions in the PRC governmental authorities, including the deputy director of the Department of Postal Economic Research, the director of the Finance Bureau of the Ministry of Posts and Telecommunications, the general director of the Department of Operations and Finance and the general director of the Department of Finance. Mr. Shi graduated from the department of management engineering at the Beijing University of Posts and Telecommunications in 1963.

Dr. Ma Kwai Yuen, aged 58, has been our independent non-executive director since June 3, 2011. Dr. Ma has over 30 years of professional experience in accounting, financial management and business consultancy. Dr. Ma is a director and principal consultant of Wellon Consultants Ltd. Dr. Ma also serves as an independent non-executive director at Genvon Group Limited (stock code 2389), a houseware tool manufacturing company listed on the Stock Exchange, China Aoyuan Property Group Limited (stock code 3883), a real estate development company listed on the Stock Exchange, and PacMOS Technologies Holdings Limited (stock code 1010), an integrated circuit and semi-conductor part manufacturing company listed on the Stock Exchange. Prior to joining our company, Dr. Ma had been an independent non-executive director of China Shineway Pharmaceutical Group Limited (stock code 2877), a medicine injection and soft capsule manufacturer listed on the Stock Exchange, from May 2008 to December 2009, and Vision Tech International Holdings Limited (stock code 922), an electronic appliance and metals distributing company listed on the Stock Exchange, from March 2008 to June 2009. Dr. Ma is a fellow member of the Chartered Institute of Management Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Australian Certified Practicing Accountants Australia. Dr. Ma received a master's degree in international corporate and finance law from the University of Wolverhampton in 2009, a graduate certificate in company law, auditing and taxation from the New South Wales Institute of Technology in 1985 and a higher diploma in accounting from Hong Kong Polytechnic University in 1977. Dr. Ma also received a Doctor of Philosophy in Business Administration from Bulacan State University in May 2011.

Biographical Details of Directors and Senior Management

Mr. Lui Pan, aged 57, has been our independent non-executive director since June 3, 2011. Mr. Lui is the chief executive officer and a founding member of DVN (Holdings) Limited (stock code 500), a digital TV technology manufacturing company listed on the Stock Exchange. Mr. Lui has approximately 31 years of experience in the high technology industry and the information technology industry and possesses extensive knowledge in developing technologies and formulating business and market strategies. He was appointed as a member of the sub-committee of the China Digital Television Standards Committee and plays a key role in the development of China's digital television standard. Mr. Lui received a doctor of philosophy degree from the Hong Kong Polytechnic University in 2007, a master's degree in electrical engineering and electronics from the Zhejiang University in 1986 and a master's degree in business administration from the Chinese University of Hong Kong in 1997.

SENIOR MANAGEMENT

Mr. Zhang Yonglu, aged 55, joined Sifang Telecom in 2002 and has served as a director of Sifang Telecom since August 2006 and the general manager of Sifang Telecom since July 2008. He oversees the overall operation and management of Sifang Telecom. Prior to joining Sifang Telecom, he served as a vice chairman of the labor union of Xi'an coal mine of the Mining Bureau of Liaoyuan City, Jilin Province from 1982 to 1989 and as a deputy officer of the Social Security Office of Comprehensive Management of the Liaoyuan Municipality, Jilin Province from 1990 to 1998. He has extensive experience in business operations and management.

Mr. Han Liren, aged 47, has served as a vice general manager of Sifang Telecom since July 2008. Mr. Han is in charge of the general administration and human resource department of Sifang Telecom. He has approximately 11 years of experience in administration and human resource management. Prior to joining Sifang Telecom in 2005, from 2003 to 2005, he served as an executive vice general manager of Hebei Enterprises Investment Corporation. Mr. Han was the chairman and a general manager of Qinhuangdao Zhongxing Electronic Corporation from 2000 to 2003. Mr. Han received a bachelor's degree in engineering from Zhengzhou Textile Institute, now known as Zhongyuan College of Technology in 1984.

Mr. Liu Dehui, aged 54, has served as a vice general manager of Sifang Telecom since May 2009. Mr. Liu is in charge of project financing, and he oversees the office of the general manager of Sifang Telecom. He joined Sifang Telecom in November 2006 and was appointed as vice general manager in May 2009 and director since 2011. Mr. Liu possesses over 11 years of management experience. Prior to joining Sifang Telecom, Mr. Liu served as the director of Hebei Province Oceanic Administration from 1995 to 2000. Mr. Liu received a bachelor's degree in engineering from Ordnance Engineering College in China in 1987.

Mr. Zhang Aimin, aged 37, has served as the chief engineer of Sifang Telecom since December 2006. Mr. Zhang joined Sifang Telecom in 2006 as the manager of the production department. Mr. Zhang has over 14 years of experience in the communications industry, specializing in the application of passive optical communications products and commercialization of communications products. While working in Sifang Telecom, Mr. Zhang participated in the drafting of The Optical Splitter Box Industry Standard initiated by the China Communications Standardization Association. Prior to joining Sifang Telecom, Mr. Zhang worked as a product and project manager of the communications division of the Haier Group, a China-based household appliance manufacturing company listed on the Shanghai Stock Exchange, from 1998 to 2003 and a technical support engineer at Huawei Technologies, a China-based telecom equipment manufacturing company, from 2003 to 2006. Mr. Zhang received a bachelor's degree in management engineering from Wuhan University of Technology in 1998.

Mr. Xia Ni, aged 41, has been our vice president since September 1, 2010. He is primarily responsible for our company's corporate finance. Mr. Xia joined Sifang Telecom in August 2009 and served as the assistant to the chairman of Sifang Telecom. Mr. Xia has approximately 18 years of experience in project investment and corporate financing. Prior to joining Sifang Telecom, Mr. Xia worked in several investment banks and investment institutions in China. Mr. Xia is a member of the Hong Kong Investor Relations Association. He received a bachelor's degree majoring in automotive engineering from Shanghai University of Engineering Science in 1993 and a master's degree in management from Shanghai University of Finance and Economics in 1998.

Corporate Governance Report

Dear Shareholders,

The Company is committed to adopt corporate governance to pursue excellence on its conformance and performance to derive the best interest of our stakeholders. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. Since our IPO in July 2011, the Company has reviewed its corporate governance practices on a quarterly basis to ensure that they comply with the Code on Corporate Governance Practices and are aligned with the latest developments.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

Our corporate governance committee had reviewed the corporate governance practices of the Company detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules during the year ended December 31, 2011.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Company's businesses, strategic decisions and performances. The Board has served to consider and resolve matters concerning principally the Company's overall strategy, annual and interim results, recommendations on Directors' appointments and remuneration, material contracts and transactions as well as other significant policies and financial matters. The Board has delegated the daily operations and administration of the Company to the management. The respective functions of the Board and management of the Company have been formalized in writing which will be reviewed from time to time.

The Company established four board committees during 2011 and up to the date of this report and has delegated to these board committees various responsibilities set out in their terms of reference.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. In addition, written terms of reference have been established to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

The Board has the full support of the senior management in discharging its responsibilities.

Commencing January 2012, the Company provides all Directors with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. The information provided includes monthly management accounts and narrative of management updates.

Commencing June 2011, all Directors and officers are covered by appropriate insurance arranged by the Company.

Corporate Governance Report

BOARD COMPOSITION

The Directors of the Company during the year and up to the date of this report are set out in the "Directors" section of the Directors' Report on page 38.

There was no change in the composition of our Board since our IPO in July 2011. Since then, the Board is made up of eight members in total, with four Executive Directors, one Non-executive Director and three Independent Non-executive Directors (INEDs).

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision-making.

As at December 31, 2011 and up to the date of this Corporate Governance Report, the Board comprises the following Directors:

Executive Directors

Mr. Zhao Bing	*(Chairman of the Board, Chairman of Remuneration Committee, Member of Nomination Committee)*
Mr. Meng Yuxiao	
Mr. Deng Xuejin	
Mr. Hung, Randy King Kuen	*(Chief Financial Officer, Company Secretary, Member of Corporate Governance Committee)*

Non-executive Director

Mr. Song Zhiping

Independent Non-executive Directors

Mr. Shi Cuiming	*(Chairman of Nomination Committee, Member of Audit Committee and Member of Corporate Governance Committee, Member of Remuneration Committee)*
Dr. Ma Kwai Yuen	*(Chairman of Audit Committee, Chairman of Corporate Governance Committee, Member of Nomination Committee)*
Mr. Lui Pan	*(Member of Audit Committee, Member of Remuneration Committee)*

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 21 to 23.

Currently, the Company has three INEDs representing more than one-third of the Board. One of the three INEDs have the appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All of the INEDs have extensive experience as a director or senior executive of Hong Kong listed company.

The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules. None of the members of the Board is related to another.

Corporate Governance Report

All Directors, including the Non-executive Director and INEDs, bring a wide spectrum of valuable business experience, knowledge and professionalism to the Board to ensure its efficient and effective functioning. INEDs are invited to serve on the Audit, Remuneration, Nomination and Corporate Governance Committees of the Company. Their active participation in Board and committee meetings brings independent judgment to bear on issues relating to the Company's strategy, performance and management processes, taking into account the interests of all shareholders.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Board as a whole has been responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of INEDs. In March 2012, a Nomination Committee was formed with specific written terms of reference to handle such tasks.

Each of the Non-executive Directors is appointed for a specific term of three years and shall be subject to retirement by rotation in accordance with the Company's Articles of Association.

All Directors appointed to fill a casual vacancy should be subject to re-election by shareholders at the next following annual general meeting after their appointment and every director, should be subject to retirement by rotation in accordance with the Company's Articles of Association.

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that the newly appointed director is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually updated on legal and regulatory developments, as well as business and market changes, to facilitate the discharge of their responsibilities.

During 2011, all Directors and most members of senior management attended a total of 5 sessions of trainings to enhance relevant knowledge on the Listing Rules, board practices, internal control and anti-money laundering. A total of 4 directors and 5 senior management and 1 finance staff were awarded a Certificate of on the Role of a Listed Company Director from the Hong Kong Institute of Directors.

The Board has also committed to attend at least four training sessions per year in the year of 2012 and 2013.

Corporate Governance Report

BOARD AND BOARD COMMITTEES MEETINGS

Number of Meetings and Directors' Attendance

The Company held 2 full board meetings in the year 2011. The attendance records of each Director at the board meetings are set out below:

		Number of meetings attended/ Total number of meetings held		
Attendance of Meeting	Board Meeting	Audit Committee Meeting	Corporate Governance Committee Meeting	Remuneration Committee Meeting
Executive Directors				
Mr. Zhao Bing *(Chairman of the Board/Chairman of Remuneration Committee)*	2/2	—	—	1/1
Mr. Meng Yuxiao	2/2	—	—	—
Mr. Deng Xuejun	2/2	—	—	—
Mr. Hung, Randy King Kuen	2/2	—	2/2	—
Non-Executive Directors				
Mr. Song Zhiping	2/2	—	—	—
Independent non-Executive Directors				
Mr. Shi Cuiming	2/2	2/2	2/2	1/1
Dr. Ma Kwai Yuen *(Chairman of Audit Committee/ Chairman of Corporate Governance Committee)*	2/2	2/2	2/2	—
Mr. Lui Pan	2/2	2/2	—	1/1

Practice and Conduct of Meetings

All Directors are given opportunity to include matters in the agenda for regular board meetings. Meeting schedules and the draft agenda of each meeting are made available to Directors in advance. Board and committee meetings are scheduled at least one month in advance to facilitate the maximum attendance of Directors.

Notices of regular board meetings are served to all Directors at least 14 days before the meetings. For other board and committee meetings, reasonable notice is generally given. Board papers together with appropriate, complete and reliable information are sent to all Directors at least 3 days before each board meeting or committee meeting to keep the Directors abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management attends regular board meetings when necessary, other board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current board practice, any material transaction that involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened board meeting. The interested Directors shall abstain from voting and shall not be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual.

The Company does not have senior management with the title of CEO. Rather, the work load of a CEO is delegated to Executive Directors and senior management.

The Board considered that vesting the roles of CEO to different senior personnel was a unique but appropriate strategy in the business development of the Company at this point.

Our Executive Directors play a more important role to provide strong and consistent leadership which was critical for the efficient business planning and decisions of the Company in its present stage of development.

Furthermore, all major decisions were made in consultation with members of the Board as a whole, and appropriate board committees. There were three INEDs on the Board offering strong, independent and differing perspectives. The Board was therefore of the view that there were adequate balance of power and safeguards in place.

With the support of the Company Secretary and the senior management, the Chairman was responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefings on issues arising at the board meetings, and that all key and appropriate issues were discussed by the Board in a similarly timely manner.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code regarding securities transactions by the Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended December 31, 2011.

To comply with the code provision A.6.4 of the CG Code, the Company established and adopted a Code for Securities Transactions by Relevant Employees, on no less exacting terms than the Model Code, to regulate dealings in the shares of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its shares. No incident of non-compliance with these written guidelines by the relevant employees was noted by the Company.

BOARD COMMITTEES

Since our listing and up to present, the Board has established four committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing particular aspects of the Company's affairs.

The four board committees of the Company are established with defined written terms of reference, approved by the Board, which set out the Committees' major duties. The terms of reference of the board committees are posted on the Company's website and are available to shareholders.

Corporate Governance Report

The majority of the members of each board committee are INEDs. The list of the chairman and members of each board committee is set out under "Corporate Information" on page 5.

The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

AUDIT COMMITTEE

The Audit Committee was formed on June 3, 2011. It consists of three members, namely Dr. Ma Kwai Yuen, Mr. Shi Cuiming and Mr. Lui Pan. All of them are INEDs. The chairman of the Audit Committee is Dr. Ma Kwai Yuen.

The main duties of the Audit Committee include the following:

1) To review financial information, financial statements and reports and consider any significant or unusual items raised by the internal audit department or external auditors before submission to the Board.

2) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors.

3) To review the adequacy and effectiveness of the Company's financial reporting system, internal controls and risk management system and, associated procedures.

The Audit Committee has reviewed the Group's interim and annual results for the year ended December 31, 2011, including the accounting principles and practices adopted by the Company, in conjunction with the Company's external auditors. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Audit Committee has the same view as the Board regarding the selection, appointment, resignation or dismissal of external auditors.

Two meetings were held by the Audit Committee during the year ended December 31, 2011 and these meetings were attended by all three members and two senior management.

The Audit Committee reviewed the internal control reports conducted by a well-known independent professional firm and made suggestions to the Board.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was formed on June 3, 2011. It consists of three members, namely Dr. Ma Kwai Yuen, Mr. Shi Cuiming and Mr. Hung, Randy King Kuen. Majority of them are INEDs. The chairman of the Corporate Governance Committee is Dr. Ma Kwai Yuen.

The main duties of the Corporate Governance Committee include the following:

1) To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board.

2) To oversee the provision of extensive and ongoing training on Listing Rules and corporate governance matters to all the directors, senior management and the finance staff of the Group.

3) To review and monitor the Group's policies and practices in compliance with legal and regulatory requirements including, but not limited to the Listing Rules and the Guide on Disclosure of Price Sensitive Information published by the Hong Kong Stock Exchange.

4) To develop, review and monitor the code of conduct and compliance manual applicable to employees and directors.

5) To work closely with the Board, the external consulting firm, the compliance advisor and the Company's legal advisors to adopt a compliance program for the Group, and to implement new policies and protocols to oversee conducts of all employees, including directors and senior management. Such compliance program is to provide a mechanism for the anonymous reporting of suspected misconduct, complaints and concerns regarding the handling of accounts and other matters.

6) To review the issuer's compliance with the Code and disclosure in the corporate governance report section of its financial statements.

7) To monitor and ensure timely communication of price sensitive information by the Board to the Group's stakeholders.

Two meetings were held by the Corporate Governance Committee during the year ended December 31, 2011 and these meetings were attended by all three members. The Corporate Governance Committee has reviewed the latest amendments on Listing Rules related to corporate governance matters to ensure that these amendments are implemented by the Company before the required commencement dates.

REMUNERATION COMMITTEE

The Remuneration Committee was formed on June 3, 2011. It consists of three members, namely Mr. Zhao Bing, Mr. Shi Cuiming and Mr. Lui Pan. Majority of them are INEDs. The chairman of the Remuneration Committee is Mr. Zhao Bing.

The primary functions of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration packages of the Directors and senior management, and to evaluate and make recommendations on employee benefit arrangements.

The Company Secretary and Human Resources Department of Sifang are responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee normally meets, when necessary, for reviewing the remuneration policy and structure and for determination of remuneration packages of the Executive Directors and the senior management and other related matters. The Committee will review the share options scheme from time to time.

One meetings were held by the Remuneration Committee during 2011 and these meetings were attended by all three members. The Remuneration Committee had not passed any resolutions during 2011.

Details of the remuneration of the Directors for the year ended December 31, 2011 are set out in note 7 to the financial statements.

NOMINATION COMMITTEE

The Nomination Committee was formed on March 18, 2012. It consists of three members, namely Mr. Shi Cuiming, Dr. Ma Kwai Yuen and Mr. Zhao Bing. Majority of them are INEDs. The chairman of the Remuneration Committee is Mr. Shi Cuiming.

The main duties of the Nomination Committee include the following:

1) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy;

2) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3) assess the independence of independent non-executive Directors; and

4) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

One meeting was held by the Remuneration Committee on March 18, 2012 to consider the nomination of a senior management as director of the Company. The meeting was attended by all three members. The Nomination Committee had resolved to propose such nomination to the Board for further consideration.

COMPANY SECRETARY

The company secretary is responsible for advising the board through the chairman and executive directors on governance matters and also facilitates induction and professional development of directors.

The company secretary is Mr. Hung, Randy King Kuen who is also an executive director and chief financial officer of the Company. Mr. Hung is an employee of the Company and has knowledge of the company's day-to-day affairs. The Company has also engaged external service providers to assist the company secretary to fulfill his relevant duties. Mr. Hung has been company secretary of a number of Hong Kong listed companies since December 1999.

The Board is responsible to approve the selection, appointment or dismissal of the company secretary. The company secretary reports directly to the Chairman of the Board.

All Directors have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.

Corporate Governance Report

RISK MANAGEMENT

Strategic Planning

The management of the Company under the leadership of the Board, has started formulating a Five-Year Strategic Plan (the "Five-Year Plan") in the fourth quarter of 2011.

During 2011, a number of strategic action plans were developed, executed, implemented by relevant executives and management to achieve these goals and objectives.

Enterprise Risk Management

Risk assessments are conducted from time to time by the Internal Audit Department of the Company's principal subsidiary, Sifang Telecom, and presented to the Chairman for review. The Company intends to implement a continuous and integrated risk assessment and management framework. This enterprise risk management framework includes the introduction of control and risk self-assessment process to the Company. This process enables the Company to change its risk assessment and management process from a punctuated one to a continuous one and to promote management's participation in, ownership of and accountability towards their relevant risk assessment and management processes.

The Audit Committee was consulted on risk assessment and management from time to time.

INTERNAL CONTROL

The Company has engaged a well-known independent professional firm to conduct reviews of the effectiveness of the Company's system of internal controls, including those of its subsidiaries during the middle of 2011 and early 2012. The Audit Committee and the Board had reviewed the detail of this internal control report to ensure that there were no material weaknesses in the internal control system and monitored the rectification of minor internal control deficiencies identified by the internal control report.

INTERNAL AUDIT

During 2011, an Internal Audit Department was established by the Group. The internal audit personnel reports to the Chairman, and has full and free access to the Audit Committee. The internal audit charter allows the internal auditors to have unrestricted access to all functions, records, property and personnel while maintaining appropriate confidentiality in performing their work.

The department helps the Group to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The Internal Audit Department issues reports to the Chairman and relevant management personnel covering various operational and financial processes and projects of the Group.

ANTI-FRAUD MEASURES

A whistle-blowing system was installed for reporting on violations of the Company's Code of Conduct and Business Ethics as well as complaints about integrity related matters from staff, vendors, customers, and business partners. Telephone hotlines and special postal and e-mail addresses were set up to enable any such complaints to reach the Chairman of the Audit Committee or the Chairman of the Board. Reporting procedure was formulated to enable the systematic, timely and uniform reporting of incidents such as potential fraud.

Corporate Governance Report

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2011.

The Board is responsible for overseeing the preparation of financial statements of the Company and reviewing the same to ensure that such financial statements give a true and fair view of the state of affairs of the Company and those relevant statutory requirements and applicable accounting standards are complied with.

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company that is put to the Board for approval.

Commencing January 2012, the Company provides all Directors with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. The information provided includes monthly management accounts and narrative of management updates.

There are separate statements containing a discussion and analysis of the Group's performance in the annual report, an explanation of the basis on which the Group generates or preserves value over the longer term, the business model and the strategy for delivering the Group's objectives.

The statement of the external auditors of the Company about their reporting responsibilities in regard to the financial statements is set out in the "Independent Auditor's Report" on page 44.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The remuneration paid and payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2011 is set out as follows:

Services rendered for the Company	Fee paid and payable
Audit services	RMB3,000,000
Non-audit services	RMB610,000
Total	RMB3,610,000

Corporate Governance Report

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company strongly believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Company's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which enables shareholders and investors to make the most informed investment decisions. The goal of our shareholder and investors communication activities is to provide a true and fair view of the Company.

The Company leverages various channels and platforms including its announcements and press releases, to ensure the timely release of important messages. Enquiries from investors are dealt with in an informative and timely manner. The Company has voluntarily announced its revenue for the 3rd quarter of 2011 to update investors, and plan to extend this practice to every 1st and 3rd quarters in the coming years.

During 2011, numerous investor presentations, meetings, and phone conference were held to further enhance investors' understanding of the Company's business and the industry's dynamics. In addition, investors and analysts are also frequently invited to tour the Company's production facilities in Shijiazhuang and meet with other management personnel. These initiatives are all well accepted by the investment community.

The Company's website is regularly being updated with corporate developments. Key events regarding financial results, business developments and operations are also announced on a timely basis to investors through the website. Upon free subscription, alert emails on the Company's public announcements and press releases will be sent to registered shareholders and investors. Contact persons of the Company can also be found on the Company's website.

The general meetings of the Company provide the best opportunity for exchange of views between the Board and the shareholders. The Chairman of the Board as well as Chairmen of the Audit, Remuneration, Nomination and Corporate Governance Committees or, in their absence, other members of the respective committees are available to answer questions at the shareholders' meetings.

SHAREHOLDER RIGHTS

To safeguard shareholders' interests and rights, separate resolutions will be proposed at shareholders' meetings on each substantial issue, including the election of an individual Director.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association.

Poll results will be made available by way of an announcement, which is published in accordance with the Listing Rules as soon as possible.

The Board is in the process of establishing a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness.

The Company's Articles of Association and procedures for shareholders to propose a person for election as a director have been posted on the Company's website.

Corporate Governance Report

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. The Company committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, integrity, accountability, sustainable development and independence. The Company will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments.

Any views and suggestions from our shareholders to promote our transparency are welcome.

Dr. Ma Kwai Yuen
Chairman
Corporate Governance Committee

Hong Kong, March 19, 2012

Audit Committee Report

Dear Shareholders,

The audit committee formally met three times from the date of listing up to the date of this report and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgmental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response.

The Audit Committee recommended the Board to re-appoint Ernst & Young as external auditor for the fiscal year 2012 and recommended to approve the interim and annual results of 2011.

MEMBERS OF AUDIT COMMITTEE

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

Dr. Ma Kwai Yuen
Chairman
Audit Committee

Hong Kong, March 19, 2012

Directors' Report

The Board is pleased to present to the shareholders their annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are manufacture, sale of fiber optic patch cords and other accessories.

RESULTS

The results of the Group for the year ended December 31, 2011, prepared in accordance with the international accounting standards, are set out in the consolidated income statements on page 46 of this annual report.

DIVIDEND

The Board recommended not to declare final dividend for the year ended December 31, 2011 but had resolved to adopt a policy of paying dividend commencing fiscal year 2012.

FINANCIAL HIGHLIGHTS

A summary of the results and assets and liabilities for the last four years, as extracted from the relevant audited financial statements, is set out on page 2 of this annual report. The summary does not form part of the audited financial statements.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 49 and note 27 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the property, plant and equipment of the Group during the year are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of the movement in share capital of the Company during the year are set out in the Consolidated Statement of Changes In Equity and also in note 25 to the consolidated financial statements.

DEBENTURES

The Company had not issued any debentures during the year.

Directors' Report

DIRECTORS

The Directors during the year and up to the date of this report were:

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

Non-Executive Director:
Mr. Song Zhiping

Independent Non-Executive Directors:
Mr. Shi Cuiming
Dr. Ma Kwai Yuen
Mr. Lui Pan

The biographical details of the Directors are set out on page 21 to page 23 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhao Bing, Mr. Meng Yuxiao, Mr. Deng Xuejun and Mr. Hung, Randy King Kuen has entered into a service contract with the Company for a term of three years commencing from June 3, 2011. Each of the Independent Non-executive Directors has been appointed for a term of three years. The appointments of all Directors are subject to retirement by rotation in accordance with the Company's articles of association (the "Articles of Association").

Other than disclosed above, none of the Directors has entered into or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

The Company has received from each Independent Non-executive Director an annual confirmation of his independence as regard each of the factors referred to in Rule 3.13(1) to (8) of the Listing Rules and the Company considered all of them to be independent.

Details of Directors' emoluments on a named basis are set out in note 7 to the consolidated financial statements on page 72 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a director, controlling shareholders or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

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 December 31, 2011, Disclosure of Interest required under Section 352 of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("SFO") and the Model Code are as follow:

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

As at December 31, 2011, 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	5,000,000 Shares	7,200,000	12,200,000	1.00%
	Monitronix Limited	Beneficial interest	10 shares of HK$1.00 each	—	—	50.00%
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	500,000 Shares	—	500,000	0.04%

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".

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

Long positions in the Shares, underlying shares and debentures

As at December 31, 2011, the interests and short positions of the shareholders of the Company in the Shares and underlying shares and debentures of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

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.

SHARE OPTION SCHEME

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 to subscribe for shares under the Pre-IPO Share Option Scheme are as follows:

Directors	Date of Grant *(Note 1)*	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 December 31, 2011	Exercise period
Mr. Meng Yuxiao	June 3, 2011	1.20	—	7,200,000	—	—	—	7,200,000	January 14, 2012 to June 2, 2021
Mr. Deng Xuejun	June 3, 2011	1.20	—	7,200,000	—	—	—	7,200,000	January 14, 2012 to June 2, 2021
Mr. Hung, Randy King Kuen	June 3, 2011	1.20	—	7,200,000	—	—	—	7,200,000	January 14, 2012 to June 2, 2021
			—	21,600,000	—	—	—	21,600,000	

Note 1: The date of grant is deemed to be July 14, 2011 for financial reporting purposes.

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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 as of December 31, 2011.

During 2011, neither the Company nor any of its subsidiaries has purchased or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 82.7% of the aggregate amount of turnover were attributable to the Group's 5 largest customers with the largest customer accounting for 34.2% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's 5 largest suppliers was approximately 76.9% of the total purchases of the Group with the largest supplier accounting for 21.2% of the Group's total purchases.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's 5 largest customers or 5 largest suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Directors' fees, basic salaries, housing allowances, other allowances and benefits in kind are disclosed in note 7 to the consolidated financial statements.

The contributions to pension schemes for Directors and past Directors for the financial year are disclosed in note 7 to the consolidated financial statements.

There was no compensation paid during the financial year or receivable by Directors or past Directors for the loss of office as a Director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

PENSION SCHEMES

The pension schemes of the Group are primarily in the form of contributions to the Hong Kong Mandatory Provident Fund and China's statutory public welfare fund.

CONNECTED TRANSACTIONS

During 2011, the Group had not entered into any connected transactions.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float throughout the year of 2011 as required under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group made donations of HK$1.0 million to charitable and non-profit-making organization.

CORPORATE GOVERNANCE

A report on the principal Corporate Governance practices adopted by the Company is set out in "Corporate Governance Report" on page 24.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 33 to the consolidated financial statements.

AUDITOR

During the year, Ernst & Young was appointed as auditor of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Ernst & Young as auditor of the Company.

On behalf of the Board
Zhao Bing
Chairman of the Board

Hong Kong, March 19, 2012

Independent Auditors' Report

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環添美道1號
中信大廈22樓

電話：+852 2846 9888
傳真：+852 2868 4432

Independent auditors' report
To the shareholders 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 46 to 100, which comprise the consolidated and company statements of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 at December 31, 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

March 19, 2012

Consolidated Statement of Comprehensive Income

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	4	**1,257,034**	838,138
Cost of sales		**(857,522)**	(570,174)
Gross profit		**399,512**	267,964
Other income	5	**3,660**	1,806
Selling and distribution costs		**(9,114)**	(7,904)
Administrative expenses		**(67,438)**	(34,098)
Other expenses		**(343)**	(56)
Finance costs	6	**(27,467)**	(15,851)
PROFIT BEFORE TAX	6	**298,810**	211,861
Income tax expense	8	**(45,559)**	(29,990)
PROFIT FOR THE YEAR	9	**253,251**	181,871
OTHER COMPREHENSIVE INCOME			
Foreign currency translation		**(4,328)**	(1,355)
Total comprehensive income for the year attributable to owners of the Company		**248,923**	180,516
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	10	**RMB0.242**	RMB0.202

Details of the dividends payable for the year ended December 31, 2011 are disclosed in note 28 to the financial statements.

Consolidated Statement of Financial Position

December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**665,243**	471,875
Prepaid land lease payments	12	**26,043**	26,214
Payments in advance	13	**105,426**	23,200
Goodwill	15	**15,563**	15,563
Deferred tax assets	16	**1,645**	1,219
Total non-current assets		**813,920**	538,071
CURRENT ASSETS			
Inventories	17	**28,424**	25,028
Trade receivables	18	**751,093**	563,668
Prepayments, deposits and other receivables	19	**23,272**	10,925
Pledged bank balances	20	**31,160**	1,200
Cash and cash equivalents	20	**550,430**	127,595
Total current assets		**1,384,379**	728,416
CURRENT LIABILITIES			
Trade and notes payable	21	**105,248**	19,546
Other payables and accruals	22	**280,202**	189,400
Tax payable		**83,890**	47,570
Dividend payable	28	**—**	51,206
Interest-bearing bank loans	23	**497,500**	273,500
Total current liabilities		**966,840**	581,222
NET CURRENT ASSETS		**417,539**	147,194
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,231,459**	685,265

Consolidated Statement of Financial Position

December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	24	**4,707**	5,300
Deferred tax liabilities	16	**6,742**	2,536
Total non-current liabilities		**11,449**	7,836
Net assets		**1,220,010**	677,429
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	**7,871**	12
Reserves	27	**1,212,139**	677,417
Total equity		**1,220,010**	677,429

Zhao Bing
Director

Hung, Randy King Kuen
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2011

	Issued capital *RMB'000* *note 25*	Share premium* *RMB'000* *note 27(a)*	Statutory reserve fund* *RMB'000* *note 27(b)*	Special reserve* *RMB'000* *note 27(c)*	Share option reserve* *RMB'000* *note 26*	Capital contribution reserve* *RMB'000* *note 27(d)*	Foreign translation reserve* *RMB'000*	Retained earnings* *RMB'000*	Total *RMB'000*
At January 1, 2010	12	118,894	30,824	59,906	—	62,825	7,554	268,104	548,119
Profit for the year	—	—	—	—	—	—	—	181,871	181,871
Other comprehensive income for the year:									
Exchange difference on foreign currency translation	—	—	—	—	—	—	(1,355)	—	(1,355)
Total comprehensive income for the year	—	—	—	—	—	—	(1,355)	181,871	180,516
Dividend declared *(note 28)*	—	(51,206)	—	—	—	—	—	—	(51,206)
Transfer from/(to) reserves	—	—	10,834	—	—	—	—	(10,834)	—
At December 31, 2010 and January 1, 2011	12	67,688	41,658	59,906	—	62,825	6,199	439,141	677,429
Profit for the year	—	—	—	—	—	—	—	253,251	253,251
Other comprehensive income for the year:									
Exchange difference on foreign currency translation	—	—	—	—	—	—	(4,328)	—	(4,328)
Total comprehensive income for the year	—	—	—	—	—	—	(4,328)	253,251	248,923
Capitalization of share premium account *(note 25(b))*	5,806	(5,806)	—	—	—	—	—	—	—
Issue of new shares *(note 25(c))*	1,939	296,813	—	—	—	—	—	—	298,752
Issue of new shares *(note 25(d))*	114	17,082	—	—	—	—	—	—	17,196
Shares issue expenses	—	(25,725)	—	—	—	—	—	—	(25,725)
Equity-settled share option arrangement	—	—	—	—	3,435	—	—	—	3,435
Transfer from/(to) reserves	—	—	16,658	—	—	—	—	(16,658)	—
At December 31, 2011	7,871	350,052	58,316	59,906	3,435	62,825	1,871	675,734	1,220,010

* These reserves accounts comprise the consolidated reserves of RMB1,212,139,000 (2010: RMB677,417,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**298,810**	211,861
Adjustments for:			
Depreciation	6	**39,320**	28,758
Amortization of prepaid land lease payments	6	**643**	595
Loss on disposal of items of property, plant and equipment	6	**258**	—
Interest on bank loans	6	**25,893**	14,485
Equity-settled share option expense	26	**3,435**	—
Bank interest income	5	**(1,245)**	(307)
Deferred income released	5	**(593)**	(400)
		366,521	254,992
Increase in inventories		**(3,396)**	(14,392)
Increase in trade receivables		**(190,877)**	(177,205)
Increase in prepayments, deposits and other receivables		**(11,704)**	(2,967)
Increase/(decrease) in trade and notes payables		**85,702**	(44,351)
Increase in other payables and accruals		**82,271**	92,121
Cash generated from operations		**328,517**	108,198
Interest paid		**(25,378)**	(14,545)
Interest received		**1,245**	307
Income tax paid		**(5,459)**	(515)
Net cash flows from operating activities		**298,925**	93,445
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(307,163)**	(134,941)
Addition to prepaid land lease payments		**(1,115)**	(1,505)
Proceeds from disposal of property, plant and equipment		**7**	—
Increase in pledged deposits		**(29,960)**	(1,200)
Net cash flows used in investing activities		**(338,231)**	(137,646)

Consolidated Statement of Cash Flows

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**315,948**	—
Share issue expenses		**(25,725)**	—
Decrease in an amount due to a related party		**—**	(474)
New bank loans		**658,710**	273,500
Repayment of bank loans		**(434,710)**	(206,000)
Dividends paid		**(51,206)**	—
Net cash flows from financing activities		**463,017**	67,026
NET INCREASE IN CASH AND CASH EQUIVALENTS		**423,711**	22,825
Cash and cash equivalents at beginning of year		**127,595**	106,125
Effect of foreign exchange rate changes, net		**(876)**	(1,355)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**550,430**	127,595
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**550,430**	127,595

Statement of Financial Position

December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Office equipment		**51**	63
Investments in subsidiaries	*14*	**132,008**	132,008
Total non-current assets		**132,059**	132,071
CURRENT ASSETS			
Due from a subsidiary	*14*	**80,167**	25,713
Prepayments and other receivables		**621**	4,517
Cash at banks	*20*	**201,024**	13,510
Total current assets		**281,812**	43,740
CURRENT LIABILITIES			
Dividend payable	*28*	**—**	51,206
Other payables		**1,527**	224
Due to a subsidiary	*14*	**38,590**	16,803
Total current liabilities		**40,117**	68,233
NET CURRENT ASSETS/(LIABILITIES)		**241,695**	(24,493)
Net assets		**373,754**	107,578
EQUITY			
Issued capital	*25*	**7,871**	12
Reserves	*27*	**365,883**	107,566
Total equity		**373,754**	107,578

Zhao Bing
Director

Hung, Randy King Kuen
Director

Notes to Financial Statements

December 31, 2011

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. The Company's principle place of business in Hong Kong is Office Suite 2001–02, 20th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

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 "HKSE").

During the year, 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 year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Kemy Holding, Inc. ("Kemy Holding"), 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 International Accounting Standards Board (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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended December 31, 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, except Pacific Gain Technologies Limited ("Pacific Gain Technologies"), which 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 and the financial statements of 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.

Notes to Financial Statements

December 31, 2011

2.2 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 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
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 1 Amendments	*Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 (2011)	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statements*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[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
5 Effective for annual periods beginning on or after January 1, 2014
6 Effective for annual periods beginning on or after January 1, 2015

Further information about these changes that 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.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs *(continued)*

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, 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in IAS 27 and SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12. The Group expects to adopt IFRS 10 from January 1, 2013.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 as a result of the issuance of IFRS 10 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 12 and the consequential amendments to IAS 27 from January 1, 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from January 1, 2013.

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from January 1, 2013.

2.3 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 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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation 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 at 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 at 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 OCI. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 any of the following conditions applies:

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

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

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

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(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;

(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 depreciates them accordingly.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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 are stated at cost less any impairment losses, and are 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 leases

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 are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 investments, 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, pledged bank balances, and trade and other receivables.

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

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 by 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 profit or loss. The loss arising from impairment is recognized in profit or loss in "Finance cost" for loans and in "Other expenses" for receivables.

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; or

- 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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 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 an 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 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 amount 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 expenses" in profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

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

Subsequent measurement

The subsequent measurement of 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 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 "Finance 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 statement of financial position if, and only if, there is a 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; a discounted cash flow analysis; and option pricing models.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement 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 statement 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:

- when 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, when 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- when 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 exactly 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;

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

(d) rental income, on a time proportion basis over the lease terms.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial government in 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. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 statement 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. 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 dates 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 arising on settlement or translation of monetary items are taken to profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss are recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

As of the end of the reporting period, the assets and liabilities of companies other than the PRC subsidiary 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 year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the foreign translation reserve. On disposal of these entities, the components of other comprehensive income relating to that particular entities are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements 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 described below:

a) Impairment of goodwill

The Group determines 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 December 31, 2011 was RMB15,563,000 (2010: 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 two years ended December 31, 2011 and 2010.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

c) PRC corporate income tax ("CIT")

The Group's operating subsidiary in 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 carrying amount of PRC CIT payable at December 31, 2011 was RMB83,890,000 (2010: RMB47,570,000).

d) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

e) 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 amount of property, plant and equipment at December 31, 2011 was RMB665,243,000 (2010: RMB471,875,000).

f) 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 amount of deferred tax assets at December 31, 2011 was RMB1,645,000 (2010: RMB1,219,000). Further details are contained in note 16 to the financial statements.

g) 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 amount of inventories at December 31, 2011 was RMB28,424,000 (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 year:

	2011		2010	
	RMB'000	**%**	*RMB'000*	%
Fiber optic patch cords	**1,233,500**	**98.1**	785,312	93.7
Connection and distribution product series	**11,532**	**0.9**	41,344	4.9
Equipment room accessories	**12,002**	**1.0**	11,482	1.4
	1,257,034	**100.0**	838,138	100.0

Geographical information

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

	2011	2010
	RMB'000	*RMB'000*
Domestic*:		
— Mainland China	**1,035,675**	642,196
Overseas:		
— Ireland	**3,295**	81,334
— New Zealand	**218,064**	114,608
	221,359	195,942
	1,257,034	838,138

* 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.

4. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*

Entity-wide disclosures *(continued)*

Information about major customers

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

	2011 *RMB'000*	2010 *RMB'000*
Customer A	**218,064**	114,608
Customer B	**429,275**	249,316
Customer C	**159,267**	92,505
Customer D	**159,883**	100,831

5. OTHER INCOME

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

	2011 *RMB'000*	2010 *RMB'000*
Government grants*	**950**	1,060
Deferred income released *(note 24)*	**593**	400
Bank interest income	**1,245**	307
Rental income	**740**	39
Others	**132**	—
Total other income	**3,660**	1,806

* 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:

	Notes	**2011** **RMB'000**	2010 RMB'000
Cost of inventories sold		**857,522**	570,174
Employee benefit expense (including directors' remuneration as set out in note 7):			
Wages and salaries		**11,691**	7,303
Equity-settled share option expense	*26*	**3,435**	—
Pension scheme contributions			
— Defined contribution fund		**1,528**	891
Total employee benefit expense		**16,654**	8,194
Interest on bank loans		**25,893**	14,485
Bank loan guarantee fees		**1,574**	1,366
Finance costs		**27,467**	15,851
Auditors' remuneration		**3,000**	—
Depreciation of items of property, plant and equipment	*11*	**39,320**	28,758
Amortization of prepaid land lease payments	*12*	**643**	595
Operating lease rental in respect of building		**751**	602
Loss on disposal of items of property, plant and equipment		**258**	—
Research and development costs		**4,600**	4,000

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2011 RMB'000	2010 RMB'000
Fees	**320**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**2,976**	1,076
Equity-settled share option expense	**3,435**	—
Pension scheme contributions	**66**	58
	6,477	1,134
	6,797	1,134

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 26 to the financial statements. The fair value of such options, which has been recognized in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	Fees RMB'000
2011	
Mr. Shi Cuiming	**98**
Mr. Lui Pan	**98**
Dr. Ma Kwai Yuen	**124**
	320

There were no fees and other emoluments payable to the independent non-executive directors during the year ended December 31, 2010.

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2011					
Executive directors					
Zhao Bing	**—**	**626**	**—**	**—**	**626**
Meng Yuxiao	**—**	**510**	**1,145**	**31**	**1,686**
Hung, Randy King Kuen	**—**	**1,756**	**1,145**	**10**	**2,911**
Deng Xuejun	**—**	**84**	**1,145**	**25**	**1,254**
	—	**2,976**	**3,435**	**66**	**6,477**
2010					
Executive directors					
Zhao Bing	—	144	—	—	144
Meng Yuxiao	—	84	—	25	109
Hung, Randy King Kuen	—	764	—	8	772
Deng Xuejun	—	84	—	25	109
	—	1,076	—	58	1,134

The non-executive director is Mr. Song Zhiping. There was no emolument payable to the non-executive director for the two years ended December 31, 2011 and 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(c) Five highest paid employees

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

	2011 *RMB'000*	2010 *RMB'000*
Salaries, allowances and benefits in kind	**311**	120
Pension contributions	**4**	—
	315	120

The remuneration of the above non-director during the year and the prior year was below HK$1,000,000.

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 year.

The provision for PRC CIT is based on the CIT rate applicable to the subsidiary located in Mainland China as determined in accordance with the relevant income tax rules and regulations in the PRC.

The major components of the tax expense for the year are as follows:

	2011 *RMB'000*	2010 *RMB'000*
Current — Mainland China		
Charge for the year	**41,779**	27,689
Deferred *(note 16)*	**3,780**	2,301
	45,559	29,990

8. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rate to the tax expense at the Group's effective tax rate for the year is as follows:

	2011 **RMB'000**	2010 RMB'000
Profit before tax	**298,810**	211,861
Tax at the applicable tax rate of 12.5%*	**37,351**	26,483
Effect of withholding tax at 10% on the distributable profit of Sifang Telecom *(note 16)*	**4,206**	2,536
Expenses not deductible for tax	**4,002**	971
Tax charge at the Group's effective tax rate	**45,559**	29,990

* 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 was 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 ended 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%.

Pursuant to the grandfathering arrangement under the New CIT Law, Sifang Telecom continued to enjoy the existing tax holiday until the end of 2011. Thereafter, it is subject to the new PRC CIT rate of 25%.

9. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year includes a loss of RMB24,202,000 (2010: RMB9,905,000), which has been dealt with in the financial statements of the Company (note 27).

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,047,593,973 (2010: 900,000,000) in issue during the year, as adjusted to reflect the capitalization issue during the year.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended December 31, 2010 is a pro forma number of 900,000,000, comprising: (i) 1,559,454 shares in issue as at December 31, 2010 and (ii) the capitalization issue of 898,440,546 shares, as referred to in note 25(b) to these financial statements. The calculation of basic earnings per share amount for the year ended December 31, 2010 has been adjusted retrospectively.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended December 31, 2011 includes the weighted average number of 317,300,000 shares issued upon the IPO and the over-allotment as referred to in notes 25(c) and 25(d) to these financial statements, respectively, in addition to the aforementioned 900,000,000 shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended December 31, 2011 in respect of a dilution as the exercise price of the Company's outstanding share options was higher than the average market price for the Company's shares during the year ended December 31, 2011. The Group had no potentially dilutive ordinary share in issue during the year ended December 31, 2010.

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
December 31, 2011						
Cost:						
At January 1, 2011	82,147	312,623	3,559	2,079	152,042	552,450
Additions	—	3,139	3,515	115	226,184	232,953
Transferred from CIP	155,465	96,311	2,123	—	(253,899)	—
Disposal	—	(49)	(996)	—	—	(1,045)
At December 31, 2011	237,612	412,024	8,201	2,194	124,327	784,358
Accumulated depreciation:						
At January 1, 2011	4,950	72,963	1,328	1,334	—	80,575
Provided for the year	5,332	33,143	533	312	—	39,320
Disposal	—	(44)	(736)	—	—	(780)
At December 31, 2011	10,282	106,062	1,125	1,646	—	119,115
Net carrying amount:						
At January 1, 2011	77,197	239,660	2,231	745	152,042	471,875
At December 31, 2011	227,330	305,962	7,076	548	124,327	665,243
December 31, 2010						
Cost:						
At January 1, 2010	79,521	265,978	3,315	2,079	96,312	447,205
Additions	2,626	46,645	244	—	55,730	105,245
At December 31, 2010	82,147	312,623	3,559	2,079	152,042	552,450
Accumulated depreciation:						
At January 1, 2010	2,693	47,089	1,015	1,020	—	51,817
Provided for the year	2,257	25,874	313	314	—	28,758
At December 31, 2010	4,950	72,963	1,328	1,334	—	80,575
Net carrying amount:						
At January 1, 2010	76,828	218,889	2,300	1,059	96,312	395,388
At December 31, 2010	77,197	239,660	2,231	745	152,042	471,875

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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):

	2011 ***RMB'000***	2010 *RMB'000*
Secured for interest-bearing bank loans	**209,822**	134,657
Secured for bank loans guaranteed by:		
Hebei Lianchuang Guarantee Co., Ltd.	**39,921**	—
Hebei Baode Guarantee Co., Ltd.	**122,075**	194,326
	371,818	328,983

12. PREPAID LAND LEASE PAYMENTS

	2011 ***RMB'000***	2010 *RMB'000*
Carrying amount at January 1	**26,214**	25,304
Additions during the year	**1,115**	1,505
Recognized during the year	**(643)**	(595)
Carrying amount at December 31	**26,686**	26,214
Current portion included in prepayments deposits and other receivables *(note 19)*	**(643)**	—
Non-current portion	**26,043**	26,214

As of December 31, 2011, prepaid land lease payments with a net book amount of RMB20,380,000 (2010: RMB26,214,000) have been pledged to banks for bank loans granted to the Group (note 23).

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

13. PAYMENTS IN ADVANCE

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

14. INVESTMENTS IN SUBSIDIARIES

	2011 *RMB'000*	2010 *RMB'000*
Unlisted investments, at cost:	**132,008**	132,008

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 subsidiaries are as follows:

Name	Place and date of establishment or incorporation	Nominal value of issued ordinary/ registered share capital	Percentage of equity 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	Export of fiber optic patch cords
Waywise Corporation Limited	Hong Kong May 27, 2011	HK$1	100	Export of fiber optic patch cords
China Fiber Optic (Hong Kong) Limited	Hong Kong August 5, 2011	HK$1	100	Dormant

15. GOODWILL

Goodwill which arose on the acquisition of Sifang Telecom by the Company 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 of the date of the acquisition.

Impairment testing of goodwill

Goodwill arising on the above acquisition was recognized in the consolidated statement 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 11.5% (2010: 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 periods.

The values assigned to the key assumptions on market development and discount rate 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, 2010	984
Deferred tax credited to profit or loss during the year *(note 8)*	235
At December 31, 2010 and at January 1, 2011	1,219
Deferred tax credited to profit or loss during the year *(note 8)*	426
At December 31, 2011	1,645

Deferred tax liabilities

	Withholding tax on distributable profit of Sifang Telecom *RMB'000*
At January 1, 2010	—
Deferred tax charged to profit or loss during the year *(note 8)*	2,536
At December 31, 2010 and at January 1, 2011	2,536
Deferred tax charged to profit or loss during the year *(note 8)*	4,206
At December 31, 2011	6,742

16. DEFERRED TAX *(continued)*

Pursuant to the resolution of the board of directors of Sifang Telecom dated February 6, 2012, Sifang Telecom will distribute dividend of not more than 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund) in respect of the year to the Company and the remaining distributable profit will be used for the business development of Sifang Telecom and will not be distributed to the Company. Therefore, a deferred tax liability of RMB4,206,000, representing 10% withholding tax on 25% of Sifang Telecom's distributable profit, has been provided for during the year.

In accordance with IAS 12, deferred tax assets are measured at 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

	2011 ***RMB'000***	2010 *RMB'000*
Raw materials	**18,844**	4,823
Work in progress	**4,879**	17,854
Finished goods	**4,701**	2,351
	28,424	25,028

18. TRADE RECEIVABLES

	2011 ***RMB'000***	2010 *RMB'000*
Trade receivables	**751,093**	563,668
Impairment	**—**	—
	751,093	563,668

Trade receivables are non-interest-bearing and are generally on terms of 30 to 360 days. The Group does not have any collateral or other credit enhancements over its trade receivable balances.

18. TRADE RECEIVABLES *(continued)*

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

	2011 **RMB'000**	2010 RMB'000
Within 1 month	**152,140**	47,515
1 to 3 months	**318,341**	194,206
3 to 6 months	**210,256**	186,730
6 to 12 months	**37,358**	127,958
12 to 16 months	**32,885**	4,324
Over 16 months	**113**	2,935
	751,093	563,668

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

	2011 **RMB'000**	2010 RMB'000
Neither past due nor impaired	**672,886**	556,409
Past due but not impaired		
Less than 1 month past due	**11,919**	2,773
Over 1 month but within 3 months past due	**36,220**	10
Over 3 months past due	**30,068**	4,476
	751,093	563,668

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

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, 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.

As of December 31, 2011, certain trade receivables with an aggregate amount of RMB195,000,000 (2010: Nil) have been pledged to secure the Group's interest-bearing bank loans (note 23).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011 *RMB'000*	2010 *RMB'000*
Prepayments for purchase of raw materials	**15,778**	288
Prepaid land lease payments to be amortized within one year *(note 12)*	**643**	—
Guarantee deposit*	**5,000**	3,500
Bidding deposit	**—**	2,177
Prepaid bank loan guarantee fee	**385**	280
Deferred listing fees	**—**	3,858
Others receivables	**1,466**	822
	23,272	10,925

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

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 BALANCES

	Group		**Company**	
	2011 *RMB'000*	2010 *RMB'000*	**2011** *RMB'000*	2010 *RMB'000*
Cash on hand	**15**	11	**—**	—
Cash at banks	**581,575**	128,784	**201,024**	13,510
	581,590	128,795	**201,024**	13,510
Less: Pledged bank balances*	**(31,160)**	(1,200)	**—**	—
	550,430	127,595	**201,024**	13,510

* The pledged bank balances as of December 31, 2011 represented deposits pledged for the issuance of banker acceptance (note 21). The pledged bank balances as of December 31, 2010 represented bank balances 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.

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES *(continued)*

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**578,131**	115,143	**197,585**	—
US$	**1,690**	13,520	**1,676**	13,385
HK$	**1,769**	132	**1,763**	125
	581,590	128,795	**201,024**	13,510

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.

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 balances approximate to their fair values.

21. TRADE AND NOTES PAYABLE

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**63,348**	19,546
Notes payable	**41,900**	—
	105,248	19,546

21. TRADE AND NOTES PAYABLE *(continued)*

An aged analysis of the trade and notes payable at the end of each reporting period, based on the invoice date, is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**68,315**	15,729
3 months to 6 months	**12,752**	1,037
6 months to 1 year	**21,886**	1,648
Over 1 year	**2,295**	1,132
	105,248	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 payable are interest-free with the terms of maturity of within 180 days. As at December 31, 2011, notes payable are secured by the pledge of bank deposits of RMB31,160,000 (note 20).

22. OTHER PAYABLES AND ACCRUALS

	2011	2010
	RMB'000	*RMB'000*
Payables related to:		
Taxes and surcharges	**254,204**	175,717
Payroll and welfare	**6,720**	4,423
Construction of property, plant and equipment	**13,390**	5,374
Professional fees	**1,314**	—
Advance from government agencies	**1,500**	2,000
Others	**250**	249
	277,378	187,763
Accruals	**2,824**	1,637
	280,202	189,400

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

23. INTEREST-BEARING BANK LOANS

	2011 **RMB'000**	2010 RMB'000
Repayable within one year:		
Guaranteed	**70,000**	70,000
Secured	**427,500**	203,500
	497,500	273,500
The bank loans bear interest at fixed rates per annum in the range of:	**6.06% to 13.10%**	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:

	Bank loans amount	
	2011 **RMB'000**	2010 RMB'000
Guaranteed by third parties:		
Hebei Baode Guarantee Co., Ltd. *(note 11)*	**50,000**	70,000
Hebei Lianchuang Guarantee Co., Ltd. *(note 11)*	**20,000**	—
	70,000	70,000

	Net book amount	
	2011 **RMB'000**	2010 RMB'000
Secured by:		
Trade receivables *(note 18)*	**195,000**	—
Property, plant and equipment *(note 11)*	**209,822**	134,657
Prepaid land lease payments *(note 12)*	**20,380**	26,214

24. DEFERRED INCOME

	2011	2010
	RMB'000	*RMB'000*
At beginning of year	**5,300**	5,700
Released to profit or loss	**(593)**	(400)
At end of year	**4,707**	5,300

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

		2011	2010
Shares	*Notes*	***RMB'000***	*RMB'000*
Authorized:			
10,000,000,000 (2010: 35,000,000) ordinary shares of US$0.001 each	*(a)*	**64,716**	279
Issued and fully paid:			
1,217,300,000 (2010: 1,559,454) ordinary shares of US$0.001 each	*(b)*	**7,871**	12

25. SHARE CAPITAL *(continued)*

The movements of the Company's authorized and issued share capital during the year were as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares RMB'000
Authorized:			
As at January 1, 2011		35,000,000	279
Increase in authorized capital	*(a)*	9,965,000,000	64,437
As at December 31, 2011		10,000,000,000	64,716

	Notes	Number of ordinary shares	Nominal value of ordinary shares RMB'000
Issued and fully paid:			
As at January 1, 2011		1,559,454	12
Capitalization of share premium account	*(b)*	898,440,546	5,806
Issue of new shares	*(c)*	300,000,000	1,939
Issue of new shares	*(d)*	17,300,000	114
As at December 31, 2011		1,217,300,000	7,871

(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) On June 3, 2011, pursuant to the written resolutions of the Company's shareholders and conditional upon the share premium account of the Company being credited as a result of the issue of new shares in connection with the IPO as detailed in (c) below, an aggregate of 898,440,546 shares of US$0.001 each of the Company were allotted and issued, credited as fully paid at par, by way of capitalization of a sum of RMB5,806,000 from the share premium account, to the Company's shareholders at that date.

25. SHARE CAPITAL *(continued)*

(c) In connection with the IPO, 300,000,000 shares of US$0.001 each were issued at a price of HK$1.2 per share for a total cash consideration, before listing expenses, of HK$360,000,000 (approximately RMB298,752,000).

The proceeds of US$300,000 (approximately RMB1,939,000), representing the par value, have been credited to the Company's share capital and the remaining proceeds of RMB296,813,000 have been credited to the share premium account.

(d) In connection with the IPO, the Company granted an over-allotment option to the international underwriters, whereby the Company was required to issue up to 19,650,000 additional new shares to cover over-allocations in the international offering.

On July 18, 2011, the over-allotment option was partially exercised and accordingly 17,300,000 new shares were allotted and issued by the Company at a price of HK$1.20 per share for a total cash consideration, before listing expenses, of HK$20,760,000 (approximately RMB17,196,000).

The proceeds of US$17,300 (approximately RMB114,000), representing the par value, have been credited to the Company's share capital and the remaining proceeds of RMB17,082,000 have been credited to the share premium account.

26. SHARE OPTION SCHEMES

On June 3, 2011, the Company adopted a share option scheme (the "Old Option Scheme") for the purpose of providing incentives and rewards to three directors of the Group who contribute to the success of the Group's operations. On July 14, 2011, in consideration of HK$1.00 from each grantee, options to subscribe for an aggregate of 21,600,000 shares at a subscription price per share equal to the offer price of HK$1.2 had been granted to three grantees under the Old Option Scheme.

The Old Option Scheme will remain in force for a period commencing on June 3, 2011 and expiring on the day immediately prior to the listing date, after which period no further options will be granted under the Old Option Scheme, but the provisions of the Old Option Scheme shall in all other respects remain in full force and effect and options granted under the Old Option Scheme during their lives may continue to be exercisable in accordance with the Old Option Scheme and their terms of issue.

Options granted pursuant to the Old Option Scheme will vest over three years or at the rate of one-sixth of the options granted every six months from the date which the grantees may exercise options granted to them.

Pursuant to relevant clauses of the Old Option Scheme, the grantees may not exercise the options that have been granted to them during any period after the Listing Date if such exercise by them would render the public float of the Company falling below 25% or any other minimum public float percentage as prescribed under the Listing Rules.

26. SHARE OPTION SCHEMES *(continued)*

In addition, the Company adopted a new share option scheme (the "New Option Scheme") which has been conditionally approved by a resolution of the shareholders passed on June 3, 2011 and will remain in force for 10 years from that date. The directors may, at their absolute discretion, invite any full-time or part-time employees, executives or officers of the Company or any member of the Group (including executive, non-executive directors and independent non-executive directors), advisors and consultants of the Group to take up options to subscribe for shares.

The maximum number of shares in respect of which options may be granted under the New Option Scheme, when aggregated with the maximum number of Shares in respect of any options to be granted under any other share option scheme established by the Company, is the number which is equal to 10 percent of the issued share capital of the Company immediately following the commencement of dealing in the shares on the Stock Exchange. No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1 percent of the issued share capital of the Company from time to time.

An offer of the grant of an option to a director, chief executive or substantial shareholder (other than a proposed independent non-executive director) of the Company or any of their respective associates must be approved by the independent non-executive directors of the Company, other than the independent non-executive director who is offered the option in question (if applicable). Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the shares in issue; and

(b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by the shareholders of the Company.

An option may be accepted by a participant within 28 days from the date of offer of grant of the option. An offer is deemed to be accepted when the Company receives from the grantee a duplicate of the offer letter signed by the grantee specifying the number of shares in respect of which the offer is accepted, and a remittance to the Company of HK$1.00 as consideration for the grant of option.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. No share options were granted under the New Option Scheme during the year.

26. SHARE OPTION SCHEMES *(continued)*

The exercise price and exercise periods of the share options under the Old Option Scheme outstanding as at December 31, 2011 are as follows:

Weighted average exercise price *HK$ per share*	Number of options *'000*	Exercise period
1.2	3,600	January 14, 2012 to July 11, 2021
1.2	3,600	July 14, 2012 to July 11, 2021
1.2	3,600	January 14, 2013 to July 11, 2021
1.2	3,600	July 14, 2013 to July 11, 2021
1.2	3,600	January 14, 2014 to July 11, 2021
1.2	3,600	July 14, 2014 to July 11, 2021
	21,600	

The fair value of the share options granted during the year was HK$11,684,000 (equivalent to approximately RMB9,473,000) or HK$0.54 each (equivalent to approximately RMB0.44 each) of which a share option expense of HK$4,236,000 (approximately RMB3,435,000) was recognized during the year (2010: Not applicable).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Exit rate (%)	10.00
Dividend yield (%)	Nil
Expected volatility (%)	49.90
Risk-free interest rate (%)	2.27

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 21,600,000 share options outstanding under the Old Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 21,600,000 additional shares and additional share capital of US$21,600 (approximately RMB136,000) and share premium of approximately RMB20,916,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 21,600,000 share options outstanding under the Old Option Scheme, which represented approximately 1.77% of the Company's shares in issue as at that date.

27. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 49 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.

(c) Special reserve

On December 8, 2008, Sifang Telecom entered into a debt restructuring agreement with then shareholders of Sifang Telecom, pursuant to which they agreed to waive the amount due from Sifang Telecom aggregating to RMB59,906,000. The amounts waived were credited to the special reserve upon completion of the debt restructuring.

(d) Capital contribution reserve

The capital contribution represented compensation from Kemy Holding for extinguishment of certain liability components of convertible preference shares in 2008, which resulted in a decrease in fair value of the convertible preference shares and such decrease was credited to capital contribution reserve account. The convertible preference shares were fully converted into the Company's shares in December 2008.

27. RESERVES *(continued)*

Company

The amounts of the Company's reserves and the movements therein for the current and prior years are as follows:

	Notes	Share premium RMB'000	Capital contribution reserve RMB'000	Share option reserve RMB'000	Foreign translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2010		118,894	62,825	—	7,702	(20,605)	168,816
Total comprehensive loss for the year	9	—	—	—	(139)	(9,905)	(10,044)
Dividend declared		(51,206)	—	—	—	—	(51,206)
At December 31, 2010 and January 1, 2011		67,688	62,825	—	7,563	(30,510)	107,566
Total comprehensive loss for the year	9	—	—	—	(3,280)	(24,202)	(27,482)
Capitalization of share premium account	25(b)	(5,806)	—	—	—	—	(5,806)
Issue of new shares	25(c)	296,813	—	—	—	—	296,813
Issue of new shares	25(d)	17,082	—	—	—	—	17,082
Transaction costs attributable to issue of shares		(25,725)	—	—	—	—	(25,725)
Equity-settled share option arrangement	26	—	—	3,435	—	—	3,435
At December 31, 2011		350,052	62,825	3,435	4,283	(54,712)	365,883

28. DIVIDENDS

Pursuant to the resolutions of the board of the directors held on March 19, 2012, the directors of the Company resolved not to pay a final dividend to shareholders for the year (2010: Nil).

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

29. COMMITMENTS

(a) Capital commitments

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

	2011 *RMB'000*	2010 *RMB'000*
Contracted, but not provided for:		
— Plant and machinery	**65,666**	122,092

(b) Operating lease arrangements — As lessor

As lessor, the Group leases certain part of its office buildings under operating lease arrangements with lease terms of five years. As of December 31, 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows (2010: Nil):

	2011 *RMB'000*
Within one year	**879**
In the second to fifth years, inclusive	**1,104**
	1,983

(c) Operating lease arrangements — As lessee

The Group leases certain of its office buildings under operating lease arrangements for terms of three years. As of December 31, 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 *RMB'000*	2010 *RMB'000*
Within one year	**670**	702
In the second to fifth years, inclusive	**196**	908
	866	1,610

30. CONTINGENT LIABILITIES

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

31. RELATED PARTY TRANSACTIONS

(a) During the current and prior years, the Group had no significant transactions with related parties.

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

	2011	2010
	RMB'000	*RMB'000*
Basic salaries and other benefits	**3,575**	1,364
Equity-settled share option expense	**3,435**	—
Pension scheme contributions	**96**	83
	7,106	1,447

32. 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 and notes payable and other payables. 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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:

	December 31, 2011				
	On demand *RMB'000*	**Less than 3 months** *RMB'000*	**3 to 12 months** *RMB'000*	**1 to 5 years** *RMB'000*	**Total** *RMB'000*
Interest-bearing bank loans	**—**	**179,822**	**337,215**	**—**	**517,037**
Trade and notes payable	**2,295**	**68,315**	**34,638**	**—**	**105,248**
Other payables and accruals	**—**	**278,702**	**1,500**	**—**	**280,202**
	2,295	**526,839**	**373,353**	**—**	**902,487**

	December 31, 2010				
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	—	151,531	130,144	—	281,675
Trade and notes payable	—	15,729	3,817	—	19,546
Dividend payable	—	—	51,206	—	51,206
Other payable and accruals	—	189,037	2,000	—	191,037
	—	356,297	187,167	—	543,464

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 rates.

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 current and prior years, 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, therefore the Group is exposed to credit risk in the telecommunication industry as well.

The carrying amounts of trade receivables, other receivables, pledged deposits and cash and cash equivalents included in the consolidated statement 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 minimize 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 has 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 directors consider that credit risk is significantly reduced.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group's businesses are mainly located in 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 and cash at banks 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$. The 5.0% is the rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign currency rate. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of each reporting period has been determined based on the adjustment of translation of the monetary assets at the end of each reporting period for a 5.0% of change in RMB against US$, 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$).

	2011	2010
	RMB'000	*RMB'000*
Increase/(decrease) in profit before tax:		
If RMB weakens against US$	**11,968**	4,332
If RMB strengthens against US$	**(11,968)**	(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 maximize 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 year.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

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 payable, other payables and accruals, tax payable and dividend payable less cash and cash equivalents and pledged bank balances. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios at the end of each reporting period were as follows:

	2011 ***RMB'000***	2010 *RMB'000*
Interest-bearing bank loans	**497,500**	273,500
Trade and notes payable	**105,248**	19,546
Other payables and accruals	**280,202**	189,400
Tax payable	**83,890**	47,570
Dividend payable	**—**	51,206
Less: Cash and cash equivalents	**(550,430)**	(127,595)
Pledged bank balances	**(31,160)**	(1,200)
Net debt	**385,250**	452,427
Equity	**1,220,010**	677,429
Equity and net debt	**1,605,260**	1,129,856
Gearing ratio	**24%**	40%

33. EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of the financial statements, the Group has no events after the reporting period that needs to be disclosed.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on March 19, 2012.