



CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3777



2012 Interim Report

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Financial Highlights

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2012, operating results of the Group were as follows:

- Revenue reached RMB714,590,000, an increase of 14.4% from the corresponding period of last year;
- Gross profit margin was 26.1% as compared to 27.4% of the corresponding period of last year;
- Profit for the period amounted to RMB111,177,000, an increase of 11.5% over the corresponding period of last year;
- Due to the Group's initial public offering in the second half of last year, basic and diluted earnings per share for the period based on weighted average number of ordinary shares of 1,217,300,000 in issue, was RMB9.1 cents, as compared to RMB11.1 cents based on weighted average number of ordinary shares of 900,000,000 over the corresponding period of last year; and
- No interim dividend was declared.

Company Overview

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

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

Currently, the Group has 14 fiber optic patch cord production lines and 10 soft optical cable production line in Shijiazhuang, Hebei Province, with annual production capacity of 16 million sets of fiber optic patch cords and 130,000 kilometers of soft optical cables.

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.chinafiber optic.com

INVESTOR RELATIONS CONTACT

Mr. Hung, Randy King Kuen
Executive Director & Chief Financial Officer
Tel: (852) 2877-8033
Fax: (852) 2877-8083
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BOARD OF DIRECTORS

Executive Directors

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

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

NOMINATION COMMITTEE

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

Corporate Information

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
CITIC Bank International

STOCK INFORMATION

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

3777

Listing Date

July 14, 2011

Issued Share Capital

1,217,300,000 shares

Board Lot Size

2,000 shares

CAYMAN SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

Management Discussion and Analysis

OVERVIEW

For the first half of 2012, the Group's revenue increased 14.4% to RMB714,590,000 as compared to the same period of last year. Demand for fiber optic patch cords remains strong as telecom network operators and broadcasting and television network operators in China continues to accelerate their expansion on broadband access networks. During the first six months of 2012, the Group expanded annual production capacity from 12 million sets to 16 million sets to cope with the robust growth of our business.

The Group's profit for the six months ended June 30, 2012 (the "Period") increased by 11.5% from the corresponding period of last year, to reach RMB111,177,000.

Basic and diluted earnings per share for the Period based on weighted average number of ordinary shares of 1,217,300,000 in issue was RMB9.1 cents, as compared to RMB11.1 cents based on weighted average number of ordinary shares of 900,000,000 over the corresponding period of last year.

REVENUE

Revenues by product category during the six months ended June 30, 2011 and 2012 are set forth below:

	Six months ended June 30,		
	2012 RMB'000 (Unaudited)	2011 RMB'000	Change
Fiber optic patch cords	702,730	605,579	16.0%
Connection and distribution products	3,765	12,459	(69.8%)
Equipment room accessories	8,095	6,725	20.4%
	714,590	624,763	14.4%

Sales of fiber optic patch cords accounted for 98.3% of our total revenue for the six months ended June 30, 2012, as compared to 96.9% of the corresponding period of last year.

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. With over 100 models of fiber optic patch cords of superb quality, the Group is a market leader with core competence in providing customized products and connection solutions to customers. 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.

Management Discussion and Analysis

DOMESTIC AND OVERSEAS SALES

During the first half of 2012, sales to domestic and overseas customers accounted for 92.4% and 7.6% respectively as compared to 98.0% and 2.0% of the corresponding period of last year. The following table shows the breakdown of sales of fiber optic patch cords to domestic and overseas markets:

	Six months ended June 30,		
	2012 RMB'000 (Unaudited)	2011 RMB'000	Change
Domestic sales — fiber optic patch cords	648,168	592,820	9.3%
Domestic sales — other products	11,860	19,184	(38.2%)
	660,028	612,004	7.8%
Overseas sales — fiber optic patch cords	54,562	12,759	327.6%
	714,590	624,763	14.4%

The lower growth of domestic sales of fiber optic patch cords is primarily because of the decline in volume of domestic sales by 9.3% as the Group discontinued the outsourcing of production, and the change of product sales mix with more multiple connectors patch cords of higher price range but required more lead time to produce. Accordingly, domestic sales volume was down but average selling price domestic sales of fiber optic patch cords increased from RMB58.0 per set to RMB69.5 per set as compared to the first six months of last year. Please refer to Page 8 of this interim report for detail discussion on changes in volume and average selling price of domestic sales.

Overseas sales to Ireland and New Zealand were RMB20,437,000 and RMB34,125,000 respectively for the six months ended June 30, 2012, as compared to RMB3,337,000 and RMB9,422,000 respectively of the corresponding period of last year. During the first half of last year, overseas sales was constricted by production capacity bottleneck, with addition production lines in place now, the Group anticipates that overseas sale growth will continue.

DOMESTIC SALES BY CUSTOMER TYPE

The following shows revenue derived from domestic sales of our products to different types of domestic customers in China:

	Six months ended June 30,		
	2012 RMB'000 (Unaudited)	2011 RMB'000	Change
Telecom network operators	546,277	502,615	8.7%
Broadcast and television network operators	62,481	45,743	36.6%
Specialized communication networks	4,498	27,729	(83.8%)
Others	46,772	35,917	30.2%
	660,028	612,004	7.8%

Management Discussion and Analysis

As the largest manufacturer of fiber optic patch cords in China, the Group is well positioned to capitalize on the booming market demand from telecom network operators and broadcast and television operators in the country. While we reported strong sales growth from the broadcast and television network operators, our business from telecom network operator will catch up as the Group expedites the utilization of its new production capacity installed during the first six months of 2012, and will continue to add new production capacity in the second half of the year.

SALES VOLUME & AVERAGE SELLING PRICE

The following summaries sales volume and average selling price of our fiber optic patch cords for the period ended June 30, 2011 and 2012:

	First six months of 2012		First six months of 2011	
	Sales volume (Sets)	Average Unit Price	Sales volume (Sets)	Average Unit Price
Fiber optic patch cords — domestic	9,325,804	RMB69.5	10,282,077	RMB58.0
Fiber optic patch cords — overseas model #1	110,000	US\$55.0	20,000	US\$55.0
Fiber optic patch cords — overseas model #2	—	—	50,000	US\$17.0
Fiber optic patch cords — overseas model #3	200,000	US\$13.0	—	—
	9,635,804		10,352,077	

The decline in domestic sales volume is primarily attributable to two factors. First, during the first half of last year, 5,352,077 sets were produced in house while 5,000,000 sets of fiber optic patch cords were produced by outsourcing certain non-core production processes to independent contractors to alleviate constraint in production capacity. The Group did not engage in outsourcing any production process since then. All 9,635,804 fiber optic patch cords sold during the first half of 2012 were produced by the Group.

Second, there were changes in product sales mix as domestic customers ordered large quantity of fiber optic patch cords with multiple connectors in the first half of 2012. The production lead time for one set of multiple connectors patch cord is longer than those with only one connector on each end causing reported sales volume in number of sets to be lower. At the same time, these multiple connectors patch cords were sold at a higher price range and therefore had driven the average selling price higher. For the six months ended June 30, 2012, sales of multiple connectors patch was RMB194,928,000 and accounted for 30.1% of total domestic sales of patch cords.

The increase in overseas sales volume is attributable to the increase in orders from the New Zealand and Ireland customers, and our production capacity bottleneck occurred in the first half of last year was eased with the newly added production lines during the first half of this year. A new model for overseas markets was introduced and sold at US\$13.0 per set during the period under review.

Management Discussion and Analysis

PRODUCTION CAPACITY

The Group's annual production capacity was 12 million sets by the end of 2011. The Group further added 6 additional production lines of fiber optic patch cords during the 2nd quarter of 2012 to bring to a total of 14 production lines capable of producing 16 million sets of fiber optic patch cords per annum. The Group intends to complete its expansion of production capacity to 18 million set per annum by the end of 2012.

The Group constructed 5 additional soft optical cable production lines in the first half of 2012. The total of 10 production lines enable the Group to produce of 130,000 km of soft optical cable per annum.

GROSS PROFIT MARGIN

For the first six months of 2012, overall gross profit margin of the Group was 26.1%, as compared to 27.4% for the corresponding period of last year. The lower overall gross profit margin was primarily due to the increase in depreciation of production facilities and equipment, and sales of larger quantity of relatively lower margin multiple connectors patch cords.

The following table sets forth gross profit margins from the Group's overall sales and from domestic and overseas sales of fiber optic patch cords for the first six months of 2011 and 2012:

	First six months of 2012 Gross profit margin (Unaudited)	First six months of 2011 Gross profit margin
Overall sales	26.1%	27.4%
Domestic sales — fiber optic patch cords	23.2%	26.7%
Overseas sales — fiber optic patch cords	60.7%	61.8%

During the Period under review, raw material, depreciation and wages accounted for 96.4%, 3.3%, 0.3% of costs of production respectively as compared to 96.3%, 3.4%, 0.3% for last year.

OTHER INCOME

During the first six months of 2012, other income increased by 44.8% to RMB2,025,000 as compared with the same period of last year. The increase was mainly due to the increases in bank interest income.

SELLING AND DISTRIBUTION COSTS

During the first six months of 2012, selling and distribution costs of the Group decreased 42.6% to RMB1,946,000 as compared to the same period of last year. Selling and distribution costs primarily consisted of transportation fees in connection with our sales, salaries of sales personnel, entertainment expenses, advertisement expenses and other expenses relating to our selling and distribution activities. The decrease of selling and distribution costs was due to decreased spending in advertising.

Selling and distribution costs were 0.5% and 0.3% of revenue for the six month period ended June 30, 2011, and 2012 respectively.

Management Discussion and Analysis

ADMINISTRATIVE EXPENSES

For the first six months of 2012, administrative expenses decreased 16.9% to RMB31,252,000 as compared to the same period of last year. Administrative expenses primarily consisted of wages and salaries paid to management and administrative personnel, professional fees, research and development costs, and depreciation of property, plant and equipment not related to production and stock option expense.

Wages and salaries increased from RMB4,262,000 to RMB6,738,000 during the first half of 2012 mainly due to the increases in the number of directors and directors' emoluments.

Professional fees decreased from RMB23,774,000 to RMB1,442,000 as the Group booked most of its IPO related professional fees in the first half of 2011. There was no IPO related professional fees in the first half of 2012.

Research and development costs were RMB2,200,000 and RMB2,700,000 for first half of 2011 and 2012 respectively. The Group has 46 registered patents as of June 30, 2012. The Group continued 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. In addition, head count of staff in research and development increased to 21 persons.

Depreciation of property, plant and equipment not related to production were RMB1,426,000 and RMB9,008,000 for first half of 2011 and 2012 respectively.

Stock option expense was RMB2,293,000 for the first half of 2012. As the stock option was granted in July 2011, no stock option expense was recognized during the six months ended June 30, 2011.

For the first half of 2011 and 2012, administrative expenses accounted for 6.0% and 4.4% of total revenue respectively.

FINANCE COSTS

Finance costs primarily consisted of interest expenses relating to the Group's bank loans and bank loan guarantee expenses. For the first half of 2011 and 2012, finance costs accounted for 1.9% and 2.9% of total revenue respectively.

Finance costs increased by 76.3% to RMB20,487,000 as compared to the same period of 2011. The increase was primarily as a result of increase in bank loans.

The effective interest rates of our bank loan per annum were ranged from 5.35% to 7.57% and from 4.97% to 13.1% during the first half of 2011 and 2012 respectively.

INCOME TAX

Income tax expenses increased 13.4% to RMB23,290,000 during the first half of 2012. The increase was in line with the increase in profit during the Period.

The effective tax rates for the first half of 2011 after adding back the non-recurring IPO related professional fees, and 2012 were 14.4% and 17.3% respectively. The effective tax rate increased as the statutory income tax rate of Hebei Sapphire Communication Equipment Co., Ltd. ("Sifang Telecom") increased from 12.5% in 2011 to 15.0% in 2012, due to the expiration of tax holiday for foreign enterprises. Sifang Telecom is subject to a statutory income tax rate of 15% as Sifang Telecom is qualified as a high and new technology enterprise in 2012.

Management Discussion and Analysis

The Company is not subject to any income tax in the Cayman Islands. No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the first half of 2011 and 2012.

Hence income tax expenses were provided mainly from the Company's subsidiary Sifang Telecom which is subject to preferential corporate income tax rate of 15.0% as a high and new technology enterprise and withholding tax at 10% on the distributable profit of Sifang Telecom.

EARNINGS PER SHARE

The Group completed its IPO on July 14, 2011. 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 and there was no change since then.

The following table shows the movement of shares outstanding toward June 30, 2012:

	Date	Number of Shares
Opening — last period	January 1, 2011	1,559,454
Capitalization issue	June 3, 2011	898,440,546
	June 30, 2011	900,000,000
IPO — allotment	July 14, 2011	300,000,000
IPO — over-allotment	July 18, 2011	17,300,000
Ending — current period	June 30, 2012	1,217,300,000

Due to the Group's initial public offering in the second half of last year, basic and diluted earnings per share for the six months ended June 30, 2012 based on weighted average number of ordinary shares of 1,217,300,000 in issue, was RMB9.1 cents as compared to RMB11.1 cents based on weighted average number of ordinary shares of 900,000,000 over the corresponding period of last year.

INTERIM DIVIDEND

The Board resolved not to declare interim dividend for the six months ended June 30, 2012.

DIVIDEND POLICY

The Board believes that a clear dividend policy is important to our investors. Therefore, in March 2012, the Board had resolved to adopt a policy of paying dividend commencing fiscal year 2012. Declaration of dividend will be made upon announcement of our 2012 final results and be subject to approval of shareholders at the forth coming annual shareholders meeting.

CAPITAL STRUCTURE

During the first half of 2012, the Group financed its growth in business primarily by net cash inflow from operations and utilizing bank borrowings. Accordingly, interest bearing bank loans increased from RMB497,500,000 as at December 31, 2011 to RMB546,499,000 as at June 30, 2012 and there was no change on the Group's share capital in the first half of 2012.

Management Discussion and Analysis

GEARING RATIO

The Group monitors its leverage using a gearing ratio, which is net debt divided by equity plus net debt. Net debt includes interest-bearing bank loans, trade and notes payables, other payables and accruals and tax 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, 2011 and June 30, 2012 were 24% and 17% respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2012, cash and bank deposits amounted to RMB909,010,000 which comprised of RMB755,083,000, including pledged bank balances RMB2,380,000, and others being equivalent to RMB1,660,000 and RMB152,267,000 denominated in Hong Kong Dollars and United States Dollars respectively.

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

CASH FLOW ANALYSIS

The following table sets forth selected cash flow data derived from our consolidated condensed statement of cash flows for the periods indicated.

	For the six months ended June 30,	
	2012 RMB'000 (Unaudited)	2011 RMB'000
Net cash flows from operating activities	315,160	62,421
Net cash flows used in investing activities	(8,612)	(114,008)
Net cash flows from financing activities	48,999	181,210
Net increase in cash and cash equivalents	355,547	129,623

Net cash flows from operating activities for the first six months of 2012 was primarily generated from profit for the Period amounted to RMB111,177,000 and the increase in trade and note payables of RMB92,320,000 and the increase in other payables and accruals of RMB38,575,000.

Net cash flows used in investing activities for the first six months of 2012 was primarily related to payments for construction of factory and office buildings and purchases of equipment of RMB37,392,000 offset by decrease in pledged deposits of RMB28,780,000.

Net cash inflows from financing activities for the first six months of 2012 was primarily derived from bank borrowings of RMB413,999,000 netted by repayments of bank loans of RMB365,000,000.

Management Discussion and Analysis

TRADE RECEIVABLES

Under the contracts with our domestic customers, the Group typically receive initial payment of 35% of the total contract price within 30 days after completion of preliminary inspection of our products, and the remaining contract price within one to three months after completion of final inspection. We offer credit terms ranging from three months to one year to major telecommunications network operators in China. For overseas customers, the Group amended its collection policy in early 2012 to receive total contract price within 180 days from the bill of lading date.

Trade receivable balances decreased 0.08% from RMB751,093,000 as at December 31, 2011 to RMB750,506,000 as at June 30, 2012. The slight decrease in trade receivables was primarily due to the Group's effort to expedite collection from overseas customers.

Trade receivable turnover days were 191 days and 189 days for the year ended December 31, 2011 and for the six month period ended June 30, 2012 respectively. The Group expected that turnover day will remain stable for the remaining of the year.

There were no bad debt provisions made on trade receivables for both six month periods ended June 30, 2011 and 2012.

INVENTORIES

Inventories as at June 30, 2012 was RMB22,177,000 as compared to RMB28,424,000 as at December 31, 2011.

Inventory turnover days were 11 days and 9 days for the year ended December 31, 2011 and for the six month period ended June 30, 2012 respectively.

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

CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB59,060,000 for the six months ended June 30, 2012, which were mostly related to purchase of equipment production line as well as construction of factory and office buildings. Capital expenditures have been primarily funded by IPO proceeds and net cash generated from operation. In the coming six months, the Group expects to incur additional capital expenditures of approximately RMB50,000,000 to, among other things, further increase production capacities of fiber optic patch cords and to strengthen our research and development capability.

TRADE AND NOTES PAYABLES

Trade and notes payables as at June 30, 2012 was RMB197,568,000 as compared to RMB105,248,000 as at December 31, 2011. The increase in trade payables was primarily due to the increase in volume of goods produced and longer payment terms imposed to certain raw material suppliers.

Trade and notes payables turnover days were 27 days and 52 days for the year ended December 31, 2011 and for the six month period ended June 30, 2012 respectively. Trade and notes payables turnover day increased was due to longer payment terms imposed to certain raw material supplier.

Management Discussion and Analysis

INDEBTEDNESS

As at June 30, 2012, our total banking facilities amounted to RMB1,000,099,000, of which RMB546,499,000 was utilized and an amount of RMB453,600,000 is unutilized. Please refer to Note 13 to Interim Condensed Financial Information for more detail of our bank loans as at June 30, 2012. Among all the bank loans, RMB143,999,000 were pledged by trade receivables as of June 30, 2012.

The effective interest rates of our bank loans per annum were 6.07% to 13.11% and 4.97% to 13.11% as at December 31, 2011 and June 30, 2012 respectively.

OTHER PAYABLES AND ACCRUALS

Other payables and accruals consists primarily of taxes payable other than income tax, and payable to contractors. The increase in balance was due to the increases in value added tax payable and outstanding balances payable for construction of facilities and purchases of equipment.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at June 30, 2012.

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 the period under review. There was no plan authorised by the Board for other material investments or additions of capital assets at the date of this report.

CHARGES ON ASSETS

As at June 30, 2012, the Group had pledged RMB539,332,000 (December 31, 2011: RMB587,198,000) of assets in order to secure banking facilities or bank loans.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

As at June 30, 2012, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

RELATED PARTY TRANSACTIONS

The Group had not entered into any material related party transactions for each of the six months periods ended June 30, 2011 and 2012.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As at June 30, 2012, the Group did not have any off-statement of financial position arrangements.

Management Discussion and Analysis

EMPLOYEES AND STAFF COSTS

As at June 30, 2012, the Group had 397 employees (December 31, 2011: 408 employees). Remuneration is determined and reviewed based on fair principles with reference to market conditions and individual performance.

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

OUTLOOK

The Group will continue to benefit from the construction of domestic fiber optic broadband network in China. In addition, the nationwide upgrade from copper wire coaxial cable to fiber optic network, the further penetration of fiber-to-the-home ("FTTH"), and the three-networks integration will be a combined driving force for our fast-growing momentum. Supportive policies have also been consistently announced by the Chinese government to accelerate the advancement of telecommunications, which leads to the long-term growth of fiber optic patch cords and other passive optical devices.

The State Council recently issued "Several Suggestions on Pressing Ahead the Development of Informatization and the Assurance of Information Security" (《關於大力推進信息化發展和切實保障信息安全的若干意見》), which prescribes the implementation of "Broadband China" to build new generation information infrastructure, including the expansion of FTTH to suburbs and small towns, making e-government services available to rural areas, and enhancing bandwidth, network speed and coverage. The goal is to have at least 250 million fixed line broadband accesses nationwide by the end of the "Twelve Five-Year Plan". In addition, the "Twelfth Five-Year National Strategic Emerging Industries Development Plan" (《“十二五”國家戰略性新興產業發展規劃》) published by the State Council stipulates specifically that "Broadband China" is a national strategy and aims to achieve 20M and 4M of broadband access bandwidth to urban and rural households respectively by the end of 2015.

The Group will continue to vigorously implement its blueprint of strengthening core competitiveness, enriching product portfolio, and expanding customer coverage to more provinces in China and other countries. Throughout the years, the Group believes that it is in a leading position on market share, production capacity, delivery lead time, product quality, technical standards, tailor-made solutions, customer services, economies of scale, and brand reputation which together synergize to become the Group's competitive edge. The Group will continue its efforts to enlarge its market coverage and market share in China and to reach annual production capacity of 18 million sets of fiber optic patch cords by the end of 2012. At the same time, the Group is accelerating the recruitment and training of new talents and production workers to cope with our rapid growth. International expansion beyond Ireland and New Zealand is also another priority of the Group. The Group is actively working on cooperation opportunities with new international partners with an aim to penetrate into one new country each year and to become one of the world's largest manufacturers of fiber optic patch cords in the next five years.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's auditors the interim results, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of interim condensed financial information for the six months ended June 30, 2012.

CORPORATE GOVERNANCE COMPLIANCE

The Company focuses on maintaining high standard of corporate governance in order to achieve sustainable development and enhance corporate performance especially the areas of internal control, fair disclosure and accountability to all shareholders. For the six months ended 30 June 2012, the Company has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "CG Code") contained in Appendix 14 of the Listing Rules. The Company's compliance with the provisions and recommended best practices of the CG Code are set out in the Corporate Governance Report contained in the 2011 Annual Report.

Management Discussion and Analysis

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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 during the first half of 2012.

The Company also adopted code of conduct regarding securities transactions by relevant employees on terms no less exacting than the required standards set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended June 30, 2012, neither the Company nor any of its subsidiaries has purchased or redeemed any of the Company’s listed securities.

APPRECIATION

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

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

Hong Kong, August 22, 2012

Other Information

SHARE OPTION SCHEMES

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

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

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

Details of the options granted to Directors 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, 2012	Granted during the Period	Exercised during the Period	Forfeited during the Period	Cancelled during the Period	As at June 30, 2012	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 interim report.

Other Information

DIRECTORS' INTERESTS IN SHARES

As at June 30, 2012, 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 June 30, 2012, 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	Nature of interest	Number of Shares	Number of underlying shares ⁽²⁾	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. Xia Ni	the Company	Beneficial interest	100,000 Shares	—	100,000	0.01%
Mr. Shi Cuiming	the Company	Beneficial interest	10,000 Shares	—	10,000	0.01%
Dr. Ma Kwai Yuen	the Company	Beneficial interest	500,000 Shares	—	500,000	0.04%

Notes:

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

Other Information

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

Long positions in the Shares, underlying shares and debentures

As at June 30, 2012, 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	84,979,856	6.98%
Cathay Capital Holdings, L.P. ⁽²⁾	Interest of controlled corporation	84,979,856	6.98%
Cathay Master GP, Ltd. ⁽²⁾	Interest of controlled corporation	84,979,856	6.98%
Wakee	Beneficial owner	99,375,074	8.16%
Mr. Song Zhiping ⁽³⁾	Interest of controlled corporation	99,375,074	8.16%

Notes:

- 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.
- 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.
- 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.

Report on Review of Interim Condensed Financial Information



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**To the board of directors of
CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.**

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed financial information set out on pages 21 to 38, which comprises the consolidated statement of financial position of China Fiber Optic Network System Group Ltd. as at June 30, 2012 and the related consolidated statements of comprehensive income, changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim condensed financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

August 22, 2012

Interim Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2012

		For the six months ended June 30,	
	Notes	2012 RMB'000 (Unaudited)	2011 RMB'000
REVENUE	3	714,590	624,763
Cost of sales		(528,408)	(453,291)
Gross profit		186,182	171,472
Other income	4	2,025	1,398
Selling and distribution costs		(1,946)	(3,388)
Administrative expenses		(31,252)	(37,596)
Other expenses		(55)	(28)
Finance costs	5	(20,487)	(11,622)
PROFIT BEFORE TAX	5	134,467	120,236
Income tax expense	6	(23,290)	(20,534)
PROFIT FOR THE PERIOD		111,177	99,702
OTHER COMPREHENSIVE INCOME			
Foreign currency translation		856	(2,168)
Total comprehensive income for the period attributable to owners of the Company		112,033	97,534
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	7	RMB0.091	RMB0.111

Interim Consolidated Statement of Financial Position

June 30, 2012

	Notes	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	802,541	665,243
Prepaid land lease payments	8	25,734	26,043
Payments in advance		—	105,426
Goodwill		15,563	15,563
Deferred tax assets		2,172	1,645
Total non-current assets		846,010	813,920
CURRENT ASSETS			
Inventories		22,177	28,424
Trade receivables	9	750,506	751,093
Prepayments, deposits and other receivables	10	8,331	23,272
Pledged bank balances	11	2,380	31,160
Cash and cash equivalents		906,630	550,430
Total current assets		1,690,024	1,384,379
CURRENT LIABILITIES			
Trade and notes payables	11	197,568	105,248
Other payables and accruals	12	340,518	280,202
Tax payable		104,076	83,890
Interest-bearing bank loans	13	546,499	497,500
Total current liabilities		1,188,661	966,840
NET CURRENT ASSETS		501,363	417,539
TOTAL ASSETS LESS CURRENT LIABILITIES		1,347,373	1,231,459
NON-CURRENT LIABILITIES			
Deferred income		4,217	4,707
Deferred tax liabilities		8,820	6,742
Total non-current liabilities		13,037	11,449
Net assets		1,334,336	1,220,010
EQUITY			
Equity attributable to owners of the Company			
Issued capital		7,871	7,871
Reserves		1,326,465	1,212,139
Total equity		1,334,336	1,220,010

Zhao Bing
Director

Hung, Randy King Kuen
Director

Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 2012

	Issued capital RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Capital contribution reserve RMB'000	Foreign translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2011	12	67,688	41,658	59,906	—	62,825	6,199	439,141	677,429
Profit for the period	—	—	—	—	—	—	—	99,702	99,702
Other comprehensive income for the period:									
Exchange difference on foreign currency translation	—	—	—	—	—	—	(2,168)	—	(2,168)
Total comprehensive income for the period	—	—	—	—	—	—	(2,168)	99,702	97,534
Transfer from/(to) reserves	—	—	11,549	—	—	—	—	(11,549)	—
At June 30, 2011	12	67,688	53,207	59,906	—	62,825	4,031	527,294	774,963
At January 1, 2012	7,871	350,052*	58,316*	59,906*	3,435*	62,825*	1,871*	675,734*	1,220,010
Profit for the period	—	—	—	—	—	—	—	111,177	111,177
Other comprehensive income for the period:									
Exchange difference on foreign currency translation	—	—	—	—	—	—	856	—	856
Total comprehensive income for the period	—	—	—	—	—	—	856	111,177	112,033
Equity-settled share option arrangement (note 14)	—	—	—	—	2,293	—	—	—	2,293
Transfer from/(to) reserves	—	—	9,235	—	—	—	—	(9,235)	—
At June 30, 2012 (unaudited)	7,871	350,052*	67,551*	59,906*	5,728*	62,825*	2,727*	777,676*	1,334,336

* These reserves accounts comprise the consolidated reserves of RMB1,326,465,000 (December 31, 2011: RMB1,212,139,000) in the consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2012

	For the six months ended June 30,	
	2012 RMB'000 (Unaudited)	2011 RMB'000
Net cash flows from operating activities	315,160	62,421
Net cash flows used in investing activities	(8,612)	(114,008)
Net cash flows from financing activities	48,999	181,210
NET INCREASE IN CASH AND CASH EQUIVALENTS	355,547	129,623
Cash and cash equivalents at beginning of period	550,430	127,595
Effect of foreign exchange rate changes, net	653	(2,168)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	906,630	255,050
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	856,630	255,050
Time deposits with original maturity of less than three months	50,000	—
	906,630	255,050

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

1. CORPORATE INFORMATION

China Fiber Optic Network System Group Ltd. (the “Company”) is a limited liability company incorporated in 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 principal place of business in Hong Kong is Office Suite 2001–02, 20th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

During the six months ended June 30, 2012 (the “Period”), the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the production and sale of fiber optic patch cords and other accessories. There were no significant changes in the nature of the Group’s principal activities during the Period.

In the opinion of the directors of the Company (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

The unaudited interim condensed financial information for the Period has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended December 31, 2011.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2011, except for the adoption of the amendments issued by the International Accounting Standards Board that are mandatory for annual periods beginning on or after July 1, 2011 and January 1, 2012. The adoption of these amendments has had no significant financial effect on the financial position or performance of the Group.

3. 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.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

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

Entity-wide disclosures

Information about products

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

	For the six months ended June 30,			
	2012		2011	
	RMB'000	%	RMB'000	%
	(Unaudited)			
Fiber optic patch cords	702,730	98.3	605,579	96.9
Connection and distribution product series	3,765	0.5	12,459	2.0
Equipment room accessories	8,095	1.2	6,725	1.1
	714,590	100.0	624,763	100.0

Geographical information

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

	For the six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	
Domestic*:		
— Mainland China	660,028	612,004
Overseas:		
— Ireland	20,437	3,337
— New Zealand	34,125	9,422
	54,562	12,759
	714,590	624,763

* 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.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

3. 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 Period, is set out below:

	For the six months ended June 30,	
	2012 RMB'000 (Unaudited)	2011 RMB'000
Customer A	277,142	241,704
Customer B	118,654	119,012
Customer C	96,971	83,775

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

4. OTHER INCOME

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

	For the six months ended June 30,	
	2012 RMB'000 (Unaudited)	2011 RMB'000
Government grants	—	500
Deferred income released	490	200
Bank interest income	1,200	571
Rental income	300	100
Others	35	27
Total other income	2,025	1,398

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

5. PROFIT BEFORE TAX

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

	Notes	For the six months ended June 30,	
		2012 RMB'000 (Unaudited)	2011 RMB'000
Cost of inventories sold		528,408	453,291
Employee benefit expense (including directors' remuneration):			
Wages and salaries		7,248	5,029
Equity-settled share option expense	14	2,293	—
Pension scheme contributions			
— Defined contribution fund		884	674
Total employee benefit expense		10,425	5,703
Interest on bank loans		20,102	10,905
Bank loan guarantee fees		385	717
Finance costs		20,487	11,622
Auditors' remuneration		1,000	1,200
Depreciation of items of property, plant and equipment	8	27,188	16,487
Amortization of prepaid land lease payments	8	309	333
Operating lease rental in respect of building		335	303
Research and development costs		2,700	2,200

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

6. INCOME TAX

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

	For the six months ended June 30,	
	2012 RMB'000 (Unaudited)	2011 RMB'000
Current — Mainland China Charge for the period	21,739	18,397
Deferred	1,551	2,137
Total tax charge for the period	23,290	20,534

- (a) Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.
- (b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the Period.
- (c) The provision for PRC corporate income tax ("CIT") is based on the CIT rate of 15% as Sifang Telecom is qualified as a high and new technology enterprise in 2012 and was entitled to a preferential CIT rate of 15% during the Period.

Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in the PRC effective from 1 January 2008.

Pursuant to the resolution of the board of directors of Sifang Telecom dated July 16, 2012, Sifang Telecom will distribute dividends of not more than 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund) in respect of the Period 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 RMB2,078,000 (June 30, 2011: RMB2,658,000), representing 10% withholding tax on 25% of Sifang Telecom's distributable profit, has been provided for during the Period.

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,217,300,000 (six months ended June 30, 2011: 900,000,000) in issue during the Period.

No adjustment has been made to the basic earnings per share amount presented for the Period 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 six months ended June 30, 2012.

No adjustment has been made to the basic earnings per share amount presented for the six months ended June 30, 2011 in respect of a dilution as the Group had no potentially dilutive ordinary share in issue during the six months ended June 30, 2011.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

8. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

Movements in property, plant and equipment and prepaid land lease payments during the Period are as follows:

	Property, plant and equipment <i>RMB'000</i> (Unaudited) <i>(note (a))</i>	Prepaid land lease payments <i>RMB'000</i> (Unaudited) <i>(note (b))</i>
Carrying amount at January 1, 2012	665,243	26,043
Additions	164,486	—
Depreciation/amortization charged for the Period <i>(note 5)</i>	(27,188)	(309)
Carrying amount at June 30, 2012	802,541	25,734

- (a) At the end of the reporting period, certain of the Group's property, plant and equipment have been pledged to secure the Group's interest-bearing bank loans as follows (note 13):

	June 30, 2012 <i>RMB'000</i> (Unaudited)	December 31, 2011 <i>RMB'000</i>
Secured for interest-bearing bank loans	345,208	209,822
Secured for bank loans guaranteed by:		
Hebei Lianchuang Guarantee Co., Ltd.	—	39,921
Hebei Baode Guarantee Co., Ltd.	—	122,075
	345,208	371,818

- (b) As at June 30, 2012, prepaid land lease payments with a net book amount of RMB26,377,000 (December 31, 2011: RMB20,380,000) have been pledged to banks for bank loans granted to the Group (note 13).

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

9. TRADE RECEIVABLES

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Trade receivables	750,506	751,093
Impairment	—	—
	750,506	751,093

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.

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

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Within 1 month	246,941	152,140
1 to 3 months	422,308	318,341
3 to 6 months	70,416	210,256
6 to 12 months	10,390	37,358
12 to 16 months	—	32,885
Over 16 months	451	113
	750,506	751,093

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

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Neither past due nor impaired	750,055	672,886
Past due but not impaired		
Less than 1 month past due	—	11,919
Over 1 month but within 3 months past due	—	36,220
Over 3 months past due	451	30,068
	750,506	751,093

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

9. TRADE RECEIVABLES *(continued)*

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 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 at June 30, 2012, certain trade receivables with an aggregate amount of RMB167,747,000 (December 31, 2011: RMB195,000,000) have been pledged to secure the Group's interest-bearing bank loans (note 13).

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Prepayments for purchase of raw materials	6,766	15,778
Prepaid land lease payments to be amortized within one year	643	643
Guarantee deposit	—	5,000
Prepaid bank loan guarantee fee	—	385
Other receivables	922	1,466
	8,331	23,272

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.

11. TRADE AND NOTES PAYABLES

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Trade payables	192,618	63,348
Notes payable	4,950	41,900
	197,568	105,248

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

11. TRADE AND NOTES PAYABLES *(continued)*

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

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Within 3 months	185,669	68,315
3 months to 6 months	2,929	12,752
6 months to 1 year	5,777	21,886
Over 1 year	3,193	2,295
	197,568	105,248

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 terms of maturity of within 180 days. As at June 30, 2012, notes payable are secured by the pledge of bank deposits of RMB2,380,000 (December 31, 2011: RMB31,160,000).

12. OTHER PAYABLES AND ACCRUALS

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
<i>Payables related to:</i>		
Taxes and surcharges	270,171	254,204
Payroll and welfare	7,907	6,720
Construction of property, plant and equipment	54,213	13,390
Professional fees	1,314	1,314
Advance from government agencies	1,500	1,500
Others	464	250
	335,569	277,378
Accruals	4,949	2,824
	340,518	280,202

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

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

13. INTEREST-BEARING BANK LOANS

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
<i>Repayable within one year:</i>		
Guaranteed	—	70,000
Secured	546,499	427,500
	546,499	497,500
The bank loans bear interest at fixed rates per annum in the range of:	4.97% to 13.10%	6.06% to 13.10%

As at June 30, 2012, except for the 4.97% bank loans amounting to RMB50,599,000 (December 31, 2011: nil) which are denominated in United States Dollars ("US\$"), all bank loans are denominated in RMB.

The above bank loans were guaranteed and secured as follows:

	Bank loan amount	
	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
<i>Guaranteed by third parties:</i>		
Hebei Baode Guarantee Co., Ltd. (note 8)	—	50,000
Hebei Lianchuang Guarantee Co., Ltd. (note 8)	—	20,000
	—	70,000

	Net book amount	
	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
<i>Secured by:</i>		
Trade receivables (note 9)	167,747	195,000
Property, plant and equipment (note 8)	345,208	209,822
Prepaid land lease payments (note 8)	26,377	20,380

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

14. 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 have contributed 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.

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 and 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 of Hong Kong Limited (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.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

14. SHARE OPTION SCHEMES (continued)

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 the 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 Period.

The exercise price and exercise periods of the share options under the Old Option Scheme outstanding as at June 30, 2012 are as follows:

Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>	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 in 2011 under the Old Option Scheme 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\$2,828,000 (approximately RMB2,293,000) was recognized during the Period (six months ended June 30, 2011: Not applicable).

The fair value of equity-settled share options granted in 2011 under the Old Option Scheme 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.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

14. SHARE OPTION SCHEMES *(continued)*

As at June 30, 2012, 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.

15. DIVIDENDS

Pursuant to the resolutions of the board of the directors held on August 22, 2012, the Directors resolved not to pay an interim dividend to shareholders for the six months ended June 30, 2012 (six months ended June 30, 2011: nil).

16. COMMITMENTS

(a) Capital commitments

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

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Contracted, but not provided for:		
— Property, plant and equipment	26,660	65,666

(b) Operating lease arrangements — As lessor

As lessor, the Group leases certain part of its office buildings under operating lease arrangements with lease terms ranging from one to five years. As at June 30, 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Within one year	753	879
In the second to fifth years, inclusive	666	1,104
	1,419	1,983

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2012

16. COMMITMENTS *(continued)*

(c) Operating lease arrangements — As lessee

The Group leases certain of its office building under operating lease arrangements for terms of three years. As at June 30, 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	June 30, 2012 RMB'000 (Unaudited)	December 31, 2011 RMB'000
Within one year	531	670
In the second to fifth years, inclusive	—	196
	531	866

17. RELATED PARTY TRANSACTIONS

- (a) During the six months ended June 30, 2011 and 2012, the Group had no significant transactions with its related parties.
- (b) Compensation of key management personnel of the Group:

	For the six months ended June 30,	
	2012 RMB'000 (Unaudited)	2011 RMB'000
Basic salaries and other benefits	2,177	1,619
Equity-settled share option expense	2,293	—
Pension scheme contributions	54	56
	4,524	1,675

18. EVENTS AFTER THE REPORTING PERIOD

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

19. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on August 22, 2012.