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中國光纖網絡系統集團有限公司
CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3777)

CLARIFICATION ANNOUNCEMENT
AND
RESUMPTION OF TRADING

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

CLARIFICATIONS

The board of directors (the “**Board**”) of China Fiber Optic Network System Group Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) noted that the press article published on Apple Daily in Hong Kong on March 15, 2013 (the “**Article**”) comprises piecemeal information and inaccurate surmise on the business of the Group. In this respect, the Board hereby declares that the Article contains misleading information and wishes to make the following clarifications:

1. *Group’s business with Telecom Operators*

Allegation in the Article: “The Company has failed in recent biddings for supply contracts with the Telecom Operators.”

- (a) The Group sells its products to the telecommunications network operators in the People’s Republic of China (“**China**”), including three major telecommunications

network operators in China (the “**Telecom Operators**”). The sale of standard products to the Telecom Operators is through a tender process while the sale of customized products to the Telecom Operators is based the terms of the sales contract negotiated and entered between the Group and the relevant Telecom Operator. Based on the unaudited management accounts, the Group’s direct sales to the Telecom Operators amounted to approximately RMB1,053,350,000, representing 81.4% of the Group’s sales to domestic customers for the year ended December 31, 2012.

- (b) The current procurement practice of the Telecom Operators requires equipment suppliers of customized products to become qualified suppliers through tendering. From 2010 to 2012, there were a number of tenders for centralized procurements of standard products offered by the Telecom Operators on telecommunications equipment encompassing fiber optic patch cords as a standalone item or among with other telecommunications equipment during different times of each year which the Group had selectively participated and won.
- (c) The Company confirms that, since 2010, Hebei Sapphire Communication Equipment Co., Ltd. (“**Sifang Telecom**”), a wholly-owned subsidiary of the Company, had participated in eight of the tenders for centralized procurements of standard products offered by the Telecom Operators, and had successfully won the bid in all eight tenders. Accordingly, under the practice currently adopted by the Telecom Operators, Sifang Telecom is a qualified supplier of the Telecom Operators, and has possessed the qualification to sell relevant customized products including fiber optic patch cords (which the Group did) to the group companies, provincial level subsidiaries and municipal level subsidiaries of the Telecom Operators in China from 2010 to 2013.
- (d) As a qualified supplier, the Group has also entered into sales contracts with the Telecom Operators from 2010 to 2013 for the sale of customized products to the Telecom Operators. The terms of such sales contracts were negotiated between the Group and the Telecom Operators on a case-by-case basis.
- (e) Since 2010, the Group has been targeted at the fiber optic cord market in China by providing customized products and solutions to communications network operators including the Telecom Operators by entering into sales contracts with them. In 2012, majority of the Group’s sales to the Telecom Operators was by way of sales contracts in respect of customized products.
- (f) By developing application-specific and customized products, the Group believes that the Group has gained advantage in pricing such products, while generating recurring revenues from selling replacement products to its existing customers. It was alleged in the Article that the Group has “disappeared” from a number of tenders offered by the Telecom Operators. In fact, based on the business focus of the Group, the Group chose not to participate in those tenders. In the circumstances, the Board is of the view that the allegations in the Article are unsubstantiated and groundless.

2. Pricing

Allegation in the Article: “The Company’s average selling prices for its products in domestic market are significantly high than those of its peers.”

- (a) The Group’s financial statements have been prepared in accordance with the International Financial Reporting Standards and disclosure requirements of the Hong Kong Companies Ordinance, and the financial statements related to fiscal years 2008 to 2011 were audited by the independent auditors which issued audited reports with an unqualified opinion. The 2012 interim condensed financial information of the Group was reviewed by the independent auditors in accordance with Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. Since the listing of the Company on the Stock Exchange in July 2011 (the “**Listing**”), the Group has disclosed and published the average selling prices of its fiber optic patch cords in the Company’s annual and interim reports. The average selling prices of the fiber optic patch cords disclosed in the Company’s prospectus, annual reports and 2012 interim report were determined and calculated based on the revenue audited or reviewed by the independent auditors, and the sales volume records in the management accounts, and have been consistent from year to year. The average selling prices of fiber optic patch cords sold to domestic customers for the years 2010, 2011 and 2012 (unaudited) were RMB57.6, RMB58.6, and RMB69.1 respectively. Upon publication of the Article, and at the request of the Board, the Group reviewed once again all relevant sales contracts, delivery packing lists, customer’s confirmations on goods received, VAT receipts issued, payment receipt records, and other necessary documents issued during the year of 2012, and confirms that the Group’s average selling price for domestic sales of fiber optic patch cords was RMB69.1 for the year 2012.
- (b) The Group’s pricing of its fiber optic patch cords is generally determined and vastly varied by the type of fiber, the type and length of soft optical cables, the type and specifications of connectors, the number of connectors, the volume and product quality being required and other additional specific requirements. As such, the Group’s products have a wide range of selling prices. The Group has previously sold a small number of standard fiber optic patch cords at a selling price as low as RMB10. However, as the Group’s business has always been focused on customization of fiber optic patch cords with a wide range of models and specifications and for the reasons below, the average selling price of the Group’s fiber optic patch cords in domestic sales was RMB69.1. As disclosed in the Company’s 2012 interim report, the Group has changed its product sales mix with more multiple connectors patch cords (also known as bundle patch cords) that were sold at a higher price range. Based on the unaudited management accounts of the Group for the year ended December 31, 2012, the sale of such bundle patch cords, which accounted for approximately 44.6% of total domestic sales of fiber optic patch cords in 2012, has driven the average selling price of domestic sales of fiber optic patch cords higher. The Group’s overseas orders of fiber optic patch cords were made with different technical specifications and raw materials. Major

raw materials include but not limited to soft optical cables with U.S. made optical fiber and Japan made ceramic ferrules. The requirements of technical specifications for overseas products are considerably more stringent than domestic products, and also comprise of related accessories. Hence the selling prices of the Group's fiber optic patch cords sold in the overseas market are generally higher than the average selling prices in the domestic market. Based on the unaudited management accounts of the Group for the year ended December 31, 2012, sales to domestic and overseas customers accounted for approximately 86.6% and 13.4% respectively.

- (c) The Group's main products for domestic sales (other than connection and distribution products and equipment room accessories) can be further categorized into two major groups: non-bundle patch cords and bundle patch cords. Non-bundle patch cords are those usually with 1 to 2 connectors on each end of the patch cords while bundle patch cords are those with 6, 8 or 12 connectors on each end of the patch cords. Based on the unaudited management accounts of the Group for the year ended December 31, 2012, bundle fiber optic patch cords accounted for approximately 44.6% of the total domestic sales (other than connection and distribution products and equipment room accessories) with an average selling price of RMB134.4 per set. On the other hand, non-bundle fiber optic patch cords accounted for approximately 55.4% of the total domestic sales (other than connection and distribution products and equipment room accessories) with an average selling price of RMB49.7. The Group's sold two unique models of fiber optic patch cords to overseas market in 2012 at USD55 and USD13 per set.
- (d) The Group's business focuses on customization of fiber optic patch cords. The Group often works with its customers to design customized products in accordance with its customers' specifications and requirements. Based on such customization, the Company further believes that the Group's major products are distinguishable from its competitors' products.

3. *Profits per employee*

Allegation in the Article: "The profits per employee of the Group are significantly high than those of its peers."

The Group's major product, fiber optic patch cord (including bundle patch cord), represents approximately 93.7%, 98.1% and 98.3% of the revenue of the Group for 2010, 2011 and the first half of 2012 respectively. The Group's business and product category are very focused. On the other hand, the industries of listed companies referred in the Article to illustrate profits per employee are different from that of the Group, and thereby it is difficult to compare their profitability with the Group's. As regards the Group's peer as indicated in the Article (the "Peer"), it manufactures a large variety of products with fiber optic patch cords being one of their many products. Its revenue as a whole, number of staff and earnings per employee are not directly comparable with those of the Group. Based on the above, the Board is of the view that the Group and the Peer cannot be practically compared and the comparison indicated in the Article is thereby misleading.

4. *Market share*

Allegation in the Article: “The Company’s leading position is deceptive.”

As disclosed in the Company’s prospectus dated June 16, 2011, according to the statistic data and research reports issued by an independent professional market research and consulting firm, the Group was the largest manufacturer of fiber optic patch cords in China in terms of sales volume in 2010. The Group’s market shares in terms of sales volume of fiber optic patch cords in China were 18.6%, 21.4% and 20.3% in 2010, 2011 and 2012 respectively. Based on the updated statistic data and research reports issued by the said firm, for three consecutive years since 2010, the Group had been the largest manufacturer of fiber optic patch cords in China in terms of sales volume and production capacity.

5. *Disposal of shares*

Allegation in the Article: “The substantial shareholders of the Company have disposed of 15%, in aggregate, of the issued share of the Company since its listing in 2011.”

- (a) The controlling shareholder of the Company, namely Kemy Holding Inc., a company controlled by Mr. Zhao Bing, the chairman and executive director of the Company, held approximately 43.22% of the then entire issued share capital of the Company after Listing and is currently holding approximately 42.22% of the existing issued share capital. The disposal of shares of the Company by the controlling shareholder since Listing only involved approximately 1.00%. The number of shares of the Company sold was insignificant in terms of the total number of shares held by the controlling shareholder.
- (b) Cathay Telecom Equipment Limited and Wakee Holding Inc. are private equity funds, and both first invested in the Company in 2007. Based on the public records published on the website of the Stock Exchange, (i) Cathay Telecom Equipment Limited, a previous substantial shareholder of the Company, held approximately 12.53% of the then entire issued share capital of the Company after Listing and is currently holding less than 5.00% of the existing issued share capital; and (ii) Wakee Holding Inc., a company controlled by Mr. Song Zhiping, an non-executive director of the Company who has retired by rotation in accordance with the articles of association of the Company effective on June 5, 2012, held approximately 8.16% of the then entire issued share capital of the Company after Listing and is currently holding less than 5.00% of the existing issued share capital. Given the nature of business and the investment horizon of private equity funds, it is reasonable for them to sell shares of companies in which they invested.
- (c) Based on the above, it is inappropriate, incorrect and misleading to aggregate the number of shares of the Company disposed of by the controlling shareholder on one hand and Cathay Telecom Equipment Limited and Wakee Holding Inc. on the other hand.

6. *Information appearing in the Article*

The Group confirms that it has never attended any interview with any person who represented himself as a reporter from Apple Daily at the office of Sifang Telecom in Shijiazhuang, Hebei Province and is unable to verify or confirm the background of the conversations quoted in the Article and the completeness of the information disclosed in the Article.

There is no other inside information of the Company which the Company has not disclosed. The Company wishes to inform the shareholders of the Company and the public to take due care in reading and treating any information regarding the Group published in the press which has not been confirmed by the Company. In addition, the Board welcomes media to obtain information of the Group through proper channels, and to continue to follow with interest in the business and development of the Group.

RESUMPTION OF TRADING

Trading in the shares of the Company on the Stock Exchange was halted with effect from 9:01 a.m. on March 15, 2013 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on March 25, 2013.

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

Hong Kong, March 22, 2013

As at the date of this announcement, the executive directors of the Company are Mr. Zhao Bing, Mr. Meng Yuxiao, Mr. Deng Xuejun, Mr. Hung, Randy King Kuen and Mr. Xia Ni; and the independent non-executive directors of the Company are Mr. Shi Cuiming, Dr. Ma Kwai Yuen and Mr. Lui Pan.