CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3777

2012 Annual Report

Contents

Financial Highlights

For the year ended December 31, 2012, operating results of the Group were as follows:

— Revenue reached RMB1,494,223,000, representing an increase of 18.9% from last year;

— Gross profit margin was 28.5% as compared to 31.8% of last year;

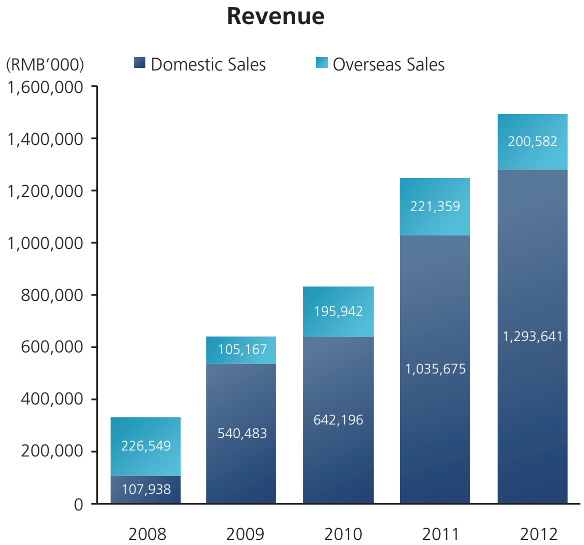
— Profit for the year amounted to RMB272,172,000, representing an increase of 7.5% from last year;

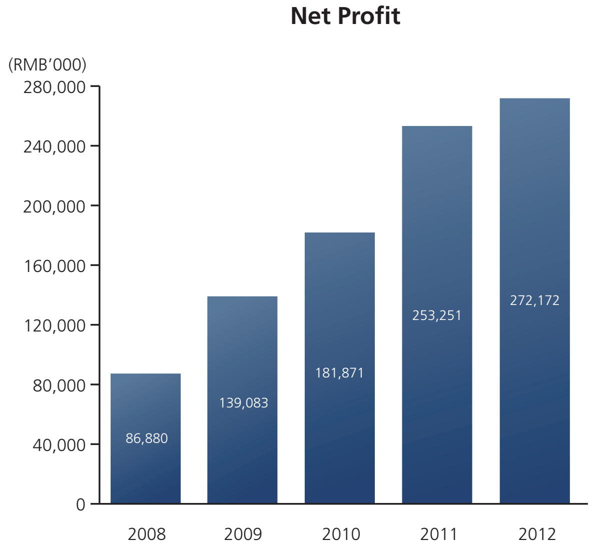
— Basic and diluted earnings per share for the year based on weighted average number of ordinary shares of 1,217,300,000 in issue, was RMB22.4 cents.

— The Board recommended a final dividend of HK1 cent per ordinary share;

— The Board resolved a dividend policy to declare dividend not less than 10% of earnings per share commencing fiscal year 2013.

Financial Highlights





	Year ended December 31				
	2008	2009	2010	2011	**2012**
Net cash flows from					
operating activities (RMB'000)	102,252	11,836	93,445	298,925	**379,709**
Gross Profit Margins					
Fiber Optic Patch Cords (Domestic)	22.5%	26.8%	25.3%	26.2%	**24.2%**
Fiber Optic Patch Cords (Overseas)	59.6%	52.8%	53.9%	57.9%	**56.4%**
Overall	47.6%	31.0%	32.0%	31.8%	**28.5%**
Effective Tax Rate					
Effective Tax Rate	nil	12.7%	14.2%	15.2%	**17.1%**
Net Profit Margin					
Net Profit Margin	26.0%	21.5%	21.7%	20.1%	**18.2%**
Financial Position					
Total Assets (RMB'000)	531,962	948,421	1,266,487	2,198,299	**2,564,890**
Total Liabilities (RMB'000)	122,764	400,302	589,058	978,289	**1,071,737**
Net Assets (RMB'000)	409,198	548,119	677,429	1,220,010	**1,493,153**
Gearing Ratio	17%	34%	40%	24%	**15%**
Working Capital Cycles					
Return on Equity	21.2%	25.4%	26.8%	20.8%	**18.2%**
Trade Receivable Turnover Days	58	135	207	191	**195**
Trade Payables Turnover Days	23	32	27	27	**50**
Inventory Turnover Days	30	8	11	11	**11**

Company Overview

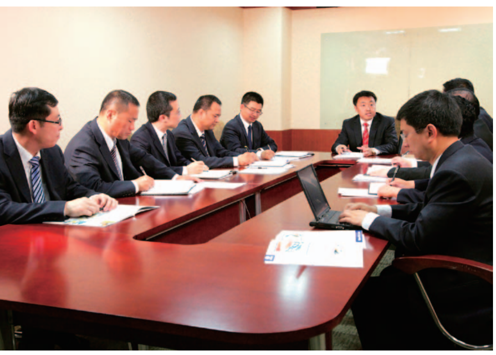
China Fiber Optic Network System Group Ltd. ("the Company"), together with its subsidiaries ("the Group") is the largest manufacturer of fiber optic patch cords in China in terms of sales volume and production capacity.

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 sixteen fiber optic patch cord production lines in Shijiazhuang, Hebei Province, with annual designed production capacity of 18 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
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

Corporate Information

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

AUDITORS

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
Agricultural Bank of China,
Gaocheng Liangcun Development Zone Branch
China CITIC Bank, Shijiazhuang Branch
China 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

Chairman's Statement

Dear Shareholders,

During the year, our business continued to grow with on-going expansion of fiber optic networks for fiber to the home, expansion of mobile base stations and "Tri-network Convergence" in the country.

Firstly, sales of fiber optic patch cords have been driven by strong demand of broadband access and favorable government policies under the theme of "Broadband China". With the goal to accomplish target coverage of 250 million households with broadband access in 2015, the Ministry of Industry and Information Technology issued two national level regulations to require all newly constructed residential buildings in counties and cities in China to equip with fiber to the home connection effective April 1, 2013.

Secondly, the increasing demand for mobile internet access also prompted the continuing expansion on the number of mobile base stations of 3G networks, leading to the rise in orders from mobile network operators during 2012. While the granting of 4G licenses are forthcoming, strong growth of business from mobile network operators are highly anticipated.

The pilot run of "Tri-network Convergence" in 54 cities and the upgrade from copper wire coaxial to fiber optic network had led to a jump of 64% in sales of our fiber optic patch cords to the country's broadcasting network operators in 2012. While recently, the State Administration Radio, Films and TV had granted certificates of network access to additional three of our passive optical products, the Group is well positioned to benefit from the nationwide adoption of "Tri-network Convergence" expected to commence after the completion of pilot run in 2013.

To capture such growth opportunity, the Group had already expanded its designed annual production capacity of fiber optic patch cords from 12 million sets to 18 million sets toward the end of 2012. In addition, the group has also begun to utilize several new production knowhow to transform our key manufacturing processes, which are able to boost the production capacity of fiber optic patch cords.

In addition, the Group is in the process of extending our product range of fiber optic patch cords and other passive optical devices. The Group is determined to further strengthen our ability to customize more solutions for our existing customers, whilst allowing us to serve new customers beyond the telecommunication sector.

To increase our profitability in the coming years, several new measures on supply chain management were made in 2012 and early 2013, including expansion of new models and production capacity of soft optical cable from 13,000 km to 130,000 km, increasing volume of bulk purchase of key raw materials, and accelerating our plans on vertical integration. In addition, the Group also aims to lower its finance costs with bank financing in Hong Kong.

The Group remains as the largest manufacturer of fiber optic patch cords in China for 2012 with a market share of 20.3% in terms of sales volume.

Looking forward, the Group continues to expand our business globally over time, aiming to become one of the top five providers of fiber optic patch cords in the world. We have been actively exploring overseas markets and opportunities, and are determined to penetrate one new country every year. Orders from new countries were received and shipments will commence in 2013.

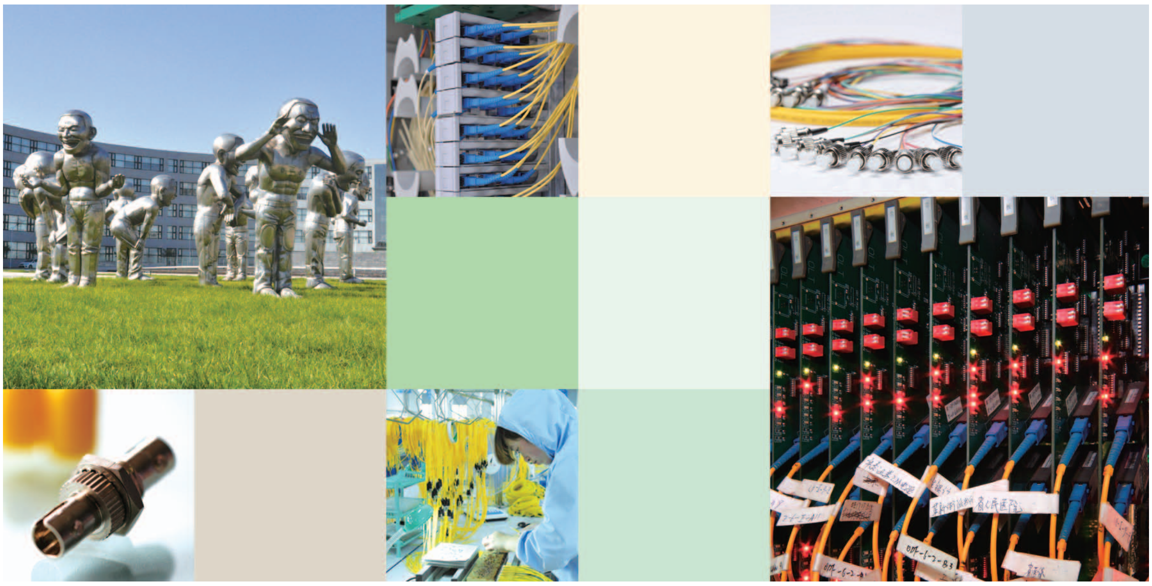
Chairman's Statement

On behalf of the Board, I would like to thank our management team for their continuous devotion and commitment during the year and also to all our staff who contributed their best to achieve the encouraging results of 2012. I also wish to express my sincere appreciation to our shareholders, valued customers, suppliers and business partners for their support to the Group.

Zhao Bing
Chairman

Hong Kong, March 28, 2013

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.

During 2012, the Group's revenue surged 18.9% to RMB1,494,223,000, mainly driven by increase of 26.1% in sales of fiber optic patch cords in the domestic market, while our export sales declined by 9.4%.

With lower gross margin caused by changes in sales mix, and increases in finance costs and statutory income tax rate, net profit for 2012 increased by 7.5% to RMB272,172,000.

Basic and diluted earnings per share for 2012 were RMB22.4 cents based on weighted average number of shares of 1,217,300,000, as compared to RMB24.2 cents for 2011 based on weighted average number of shares of 1,047,593,973.

During 2012, the Group generates RMB445,894,000 of cash flows from operations as compared to RMB328,517,000 in 2011.

Management Discussion and Analysis

REVENUE

Demand for fiber optic patch cords remained strong as telecom network operators and broadcasting and television network operators in China continued to accelerate their expansion of fiber optic networks.

The Group's annual designed production capacity reached 18 million sets of fiber optic patch cords toward the end of 2012 in order to cope with the robust demand.

A total of 19,196,102 sets of fiber optic patch cords were sold during the year.

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

	Year ended December 31,		
	2012	2011	Growth
	RMB'000	*RMB'000*	
Fiber optic patch cords	**1,476,511**	1,233,500	19.7%
Connection & distribution products	**5,880**	11,532	(49.0%)
Equipment room accessories	**11,832**	12,002	(1.4%)
	1,494,223	1,257,034	18.9%

With the largest production capacity and ability to offer over 100 models of quality fiber optic patch cords for different fiber optic network solutions, the Group will continue to benefit as a market leader in the domestic market of fiber optic patch cords and our oversea expansion plan. During 2012, we had also restricted our sales effort away from low margin connection and distribution products and equipment room accessories to more focus on providing customized solutions in connectivity with fiber optic patch cords aiming at increasing the speed of transmission.

Management Discussion and Analysis

Looking forward, the Group is positioning to expand its product portfolio vertically to offer selective high valued added accessories and products of fiber optic networks connection.

DOMESTIC AND OVERSEAS SALES

During the year, sales of fiber optic patch cords to domestic customers reported a growth of 26.1% while oversea sales was down 9.4%.

The following table shows the breakdown of sales of fiber optic patch cords to domestic and overseas markets:

	Year ended December 31,		
	2012	2011	Growth
	RMB'000	*RMB'000*	
Domestic sales — fiber optic patch cords	**1,275,929**	1,012,141	26.1%
Domestic sales — other products	**17,712**	23,534	(24.7%)
	1,293,641	1,035,675	24.9%
Overseas sales — fiber optic patch cords	**200,582**	221,359	(9.4%)
	1,494,223	1,257,034	18.9%

Sales to domestic and overseas customers accounted for 86.6% and 13.4% of our total revenue during 2012 as compared to 82.4% and 17.6% respectively in 2011. The lower proportion of high margin overseas sales contributed to the lower gross profit margin reported by the Group this year.

Oversea sales of fiber optic patch cords shipped to customers in New Zealand and Ireland during 2012 were RMB136,061,000 and RMB64,521,000, as compared to RMB218,064,000 and RMB3,295,000 in 2011.

During the year, the Group had signed agreements with new overseas customers, and shipments to these overseas customers will commence in 2013.

Management Discussion and Analysis

DOMESTIC SALES BY CUSTOMER TYPE

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

	Year ended December 31,		
	2012	2011	Growth
	RMB'000	*RMB'000*	
Telecom network operators	**1,053,350**	852,288	23.6%
Broadcast and television network operators	**119,119**	72,638	64.0%
Specialized communication networks	**21,148**	22,718	(6.9%)
Others	**100,024**	88,031	13.6%
	1,293,641	1,035,675	24.9%

Strong demand for fiber optic patch cords in the domestic market continued in 2012 as telecom operators relentlessly deployed broadband FTTx network and upgrade network transmission speeds while cable operators continued to carry out its construction and pilot run of tri-network convergence in 54 cities in China. The Group anticipates that domestic market demand will continue to be robust in 2013 with numerous favorable government initiatives such as Broadband China, and the most recently announced national policies to require all new residential buildings located in cities and counties to equip with fiber to the home connection effective April 1, 2013. In addition, construction of 4G mobile network and related remote base stations may possibly commence in 2013.

SALES VOLUME & AVERAGE SELLING PRICE

The following summaries sales volume and average selling price of our fiber optic patch cords for 2012 and 2011:

	2012		2011	
	Sales volume (Sets)	**Average Unit Price**	Sales volume (Sets)	Average Unit Price
Fiber optic patch cords — domestic	**18,456,102**	**RMB69.1**	17,263,693	RMB58.6
Fiber optic patch cords — oversea model #1	**540,000**	**US$55.0**	615,000	US$55.0
Fiber optic patch cords — oversea model #2	**–**	**–**	50,000	US$17.0
Fiber optic patch cords — oversea model #3	**200,000**	**US$13.0**	–	–
	19,196,102		17,928,693	

A total of 19,196,102 sets of fiber optic patch cord were sold by the Group in 2012 representing a 7.1% increase in sales volume. Sales mix of 2012 consisted of a higher proportion of patch cords with multiple connectors (also known as bundle patch cords). The production lead time for one set of bundle patch cord is longer than those with only one connector on each end causing reported sales volume growth in number of sets to be lower. At the same time, these bundle patch cords were sold at a higher price range and therefore had driven the average selling price higher.

In 2012, sales of bundle patch cords was RMB568,953,000 and accounted for 44.6% of total domestic sales of patch cords.

Management Discussion and Analysis

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.

For the year ended December 31, 2012, bundle 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-bundled 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.

Another factor making sales volume grow by only single digit was because 5,000,000 sets of fiber optic patch cords were produced during the second half of 2011 by outsourcing certain non-core production processes to independent contractors to alleviate constraint in production capacity. The Group did not engage in outsourcing such production processes since then. All 19,196,102 fiber optic patch cords sold during 2012 were produced by the Group.

PRODUCTION CAPACITY

During 2012, 8 additional fiber optic patch cords production lines were constructed, bringing the Group's designed annual production capacity of fiber optic patch cords to 18 million sets at the end of 2012, as compared to 12 million sets at the end of 2011.

The group has begun to utilize several key new production knowhow to transform manufacturing processes which are able to further boost the production capacity of fiber option patch cords.

The Group had constructed 9 additional soft optical cable production lines in 2012. The total of 10 production lines enable the Group to increase annual capacity from 13,000 km to 130,000 km of soft optical cable per annum, of which 5 production lines are capable of making butterfly type optic cables for fiber to the home wiring.

GROSS PROFIT MARGIN

Overall gross profit margin of the Group was 28.5% as compared to 31.8% in 2011. The lower overall gross profit margin was due to the sales of larger quantity of relatively lower margin bundle patch cords in domestic market, and smaller proportion of overseas sales was made during this year.

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 2012 and 2011:

	Year ended December 31,	
	2012 Gross profit margin	2011 Gross profit margin
Overall sales	**28.5%**	31.8%
Domestic sales — fiber optic patch cords	**24.2%**	26.2%
Overseas sales — fiber optic patch cords	**56.4%**	57.9%

Management Discussion and Analysis

The Group has initiated the following measures to improve its gross margin in 2013:

(a) Procurement prices on certain raw materials had been re-negotiated with suppliers.

(b) In-house production of certain patch cord components will commence in early 2013.

(c) Launching higher margin fiber optic patch cord models.

(d) Transform key production processes to increase efficiency and lowering the depreciation allocated to each set of patch cord.

Raw material, depreciation and wages accounted for 95.5%, 4.1%, 0.4% of costs of production respectively as compared to 96.3%, 3.3%, 0.3% in 2011.

The Group believes that gross profit margins for both domestic and oversea sales of fiber optic patch cords should improve with the above measures, given demand of fiber optic patch cords will continue to be robust in 2013.

OTHER INCOME

Other income, which mainly comprised of bank interest income increased by 85.8% to RMB6,802,000 from last year. The increase was mainly due to the increases in bank interest income from RMB1,245,000 to RMB4,898,000 in 2012.

SELLING AND DISTRIBUTION COSTS

During 2012, selling and distribution costs of the Group decreased by 27.0% to RMB6,651,000 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 decrease in 2012 was mainly due to the decreases in the entertainment and advertisement expenses.

Selling and distribution costs were 0.7% and 0.4% of revenue for the year ended December 31, 2011 and 2012 respectively.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by 10.3% to RMB60,516,000 in 2012.

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 and stock option expenses. Administrative expenses reported in 2011 also included IPO related professional fees.

Wages and salaries paid to management and administrative personnel increased from RMB13,364,000 to RMB17,532,000 during 2012 as a result of new board members appointed and increase of management's salaries both in the second half of 2011. The amortization of equity-settled share option granted in the second half of 2011 amounted to RMB4,005,000 in 2012.

Professional fees decreased from RMB23,974,000 to RMB5,135,000 as the Group booked most of its IPO related professional fees in 2011. There was no IPO related professional fees in 2012.

Research and development costs were RMB4,600,000 and RMB4,480,000 for the year of 2011 and 2012 respectively.

Management Discussion and Analysis

Depreciation of property, plant and equipment not related to production increased from RMB10,923,000 to RMB16,248,000 in 2012 mainly as a result of the complex constructed in July 2011 for research and development, training and office purposes was subject to full year depreciation in 2012.

Administrative expenses accounted for 5.4% and 4.0% of total revenue respectively for the year of 2011 and 2012.

FINANCE COSTS

Finance costs primarily consisted of interest expenses relating to the Group bank loans and bank loan guarantee fees.

Finance costs increased by 37.4% to RMB37,730,000 as compared to 2011. The increase was primarily resulted from the increase in average balance of outstanding bank loans in 2012.

The effective interest rates of our bank loan per annum were ranging from 6.1% to 13.1% and 4.8% to 8.2% as of December 31, 2011 and 2012 respectively.

During the year, the Group has secured an USD8,000,000 bank financing bearing an annual interest rate of 4.8% from a commercial bank in Hong Kong.

Financing denominated in Hong Kong dollar or US dollar will generally be offered in a lower interest rate than Renminbi loan, and hence, the Group will continue to securing bank financing in Hong Kong to lower our finance costs and facilitate our working capital need.

For the year of 2011 and 2012, finance costs accounted for 2.2% and 2.5% of total revenue respectively.

INCOME TAX EXPENSES

Income tax expenses increased by 23.2% to RMB56,149,000 in 2012. The increase was primarily due to increases in profit and change of statutory tax rate of the Group's principal subsidiary, Hebei Sapphire Communication Equipment Co., Ltd. ("Sifang Telecom") from 12.5% to 15.0% due to the expiration of tax holiday for foreign enterprises in 2011. Sifang Telecom is subject to a preferential corporate income tax rate of 15.0% for high and new technology enterprise from 2011 to 2013.

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 2011 and 2012.

Hence, income tax expenses were provided mainly from Sifang Telecom which is subject to preferential corporate income tax rate of 15.0% for 2012 and withholding tax at 10.0% on the distributable profit of Sifang Telecom.

The effective tax rates for the year of 2011 after adding back the non-recurring IPO related professional fees, and 2012 were 14.2% and 17.1% respectively.

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.

There has been no change on number of shares issued and outstanding during 2012.

Management Discussion and Analysis

Basic and diluted earnings per share for 2012 calculated based on weighted average number of ordinary shares of 1,217,300,000 in issue were RMB22.4 cents, as compared to RMB24.2 cents based on weighted average number of ordinary shares of 1,047,593,973 of last year.

CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB105,769,000 for the year ended December 31, 2012, 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 net cash generated from operations.

For 2013, the Group expects to earmark additional capital expenditures of roughly RMB200,000,000 to further increase production capacities of soft optical cables, establish component workshops, transform production lines of fiber optic patch cords and other projects. These capital expenditures will be funded by cash generated from operations and bank financing.

PROPOSED FINAL DIVIDEND

The Board has recommended a final dividend of HK1 cent (2011: Nil) per share to be paid on June 20, 2013, to the shareholders whose names appear on the register of members of the Company on June 7, 2013. The proposed final dividend will be voted by shareholders at the annual general meeting (the "AGM") to be held on May 30, 2013.

DIVIDEND POLICY

The Board resolved a dividend policy to declare dividend not less than 10% of earnings per share commencing fiscal year 2013.

CAPITAL STRUCTURE

There was no change on capital structure during 2012 except borrowings from banks decreased from RMB497,500,000 to RMB410,284,000.

GEARING RATIO

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 payables, other payables and accruals, 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 2012 were lower from 24% to 15%, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2012, cash and bank balances of the Group amounted to RMB799,691,000 comprising of RMB765,945,000 and others being equivalent to RMB950,000 and RMB32,796,000 denominated in HK dollars and US dollars respectively.

During 2012, we financed our operations through net cash generated from operating activities and bank borrowings.

Management Discussion and Analysis

Current assets net of current liabilities, was RMB648,830,000 as of December 31, 2012. The Group had RMB14,929,000 of long term liabilities consisted mainly deferred tax liabilities at the end of the year.

In the future, we expect to use funds from a combination of sources including bank loans, share capital and internally generated cash flow to fund our operations and expansion plan.

Taking into account of these financial resources available to us, the directors are of the opinion that the Group has sufficient working capital to meet our future expansion and development.

CASH FLOW ANALYSIS

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

	Year ended December 31,	
	2012	2011
	RMB'000	*RMB'000*
Net cash flows from operating activities	**379,709**	298,925
Net cash flows used in investing activities	**(44,474)**	(338,231)
Net cash flows from/(used) in financing activities	**(86,934)**	463,017
Net increase in cash and cash equivalents	**248,301**	423,711

Net cash flows from operating activities for the year 2012 was primarily generated from profit for the year amounted to RMB272,172,000 and the increase in trade and note payables of RMB84,705,000 and the increase in other payables and accruals of RMB39,723,000.

Net cash flows used in investing activities for the year 2012 was primarily related to payments for construction of factory and complex and purchases of equipment of RMB71,766,000 offset by decrease in pledged deposits of RMB27,292,000.

Net cash inflows used in financing activities for the year 2012 was primarily derived from bank borrowings of RMB503,966,000 netted by repayments of bank loans of RMB590,900,000.

TRADE RECEIVABLES

Trade receivable balances increased by 12.3% to RMB843,440,000 as at December 31, 2012. The increase in trade receivables was in line with the increase of 18.9% of revenue.

Trade receivable turnover days were 191 days and 195 days for the year ended December 31, 2011 and 2012. The Group expects turnover day to remain stable for the year of 2013.

There were no bad debt provisions made on trade receivables for the years ended December 31, 2011 and 2012.

Management Discussion and Analysis

INVENTORIES

Inventories as at December 31, 2012 amounted to RMB36,703,000 as compared to RMB28,424,000 as at December 31, 2011.

Inventory turnover days remained stable at 11 days for the years ended December 31, 2011 and 2012.

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

TRADE AND NOTES PAYABLES

Trade and notes payables as at December 31, 2012 was RMB189,953,000 as compared to RMB105,248,000 as at December 31, 2011. The increase in trade and notes payables was primarily due to the increase in volume of goods produced.

Trade and notes payables turnover days were 27 days and 50 days for the years ended December 31, 2011 and 2012. Trade and notes payables turnover day increased was due to longer payment terms imposed to certain raw material supplier.

INDEBTEDNESS

As of December 31, 2012, our total bank loans amounted to RMB410,284,000.

Please refer to note 23 to the audited financial statements for more detail of our bank loans as of December 31, 2012.

Among all the bank loans, RMB81,869,000 were pledged by trade receivables as of December 31, 2012.

The effective interest rates of our bank loans per annum were 6.1% to 13.1% and 4.8% to 8.2% as of December 31, 2011 and December 31, 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 increase 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 December 31, 2011 and 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 2012. And save for those disclosed in this report, there was no other plan authorised by the Board for other material investments or additions of capital assets as at December 31, 2012.

CHARGES ON ASSETS

As of December 31, 2012, the Group had pledged RMB361,462,000 (December 31, 2011: RMB587,198,000) of our Group's assets in order to secure banking facilities or bank loans, which were used to finance daily business operation.

Management Discussion and Analysis

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Substantially all of the Group's business transactions and liabilities are denominated in Renminbi, US Dollars and 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 December 31, 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 significant related party transactions during 2011 and 2012.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As of December 31, 2012, the Group did not have any off-statement of financial position arrangements.

EMPLOYEES AND STAFF COSTS

As at December 31, 2012, the Group had 405 employees (2011: 408 employees). During the year, the Group had engaged independent human resource firm from time to time to provide temporary workers according to the need of production orders.

Remuneration is determined and reviewed based on fair principals 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.

STRENGTHENING INVESTMENT IN INNOVATION AND TECHNOLOGY

During the year, the Enterprise Technology Center of the Group's wholly owned subsidiary, Sifang Telecom, was jointly certified by the Hebei Provincial Department of Development and Reform, Hebei Provincial Department of Industry and Information Technology and Hebei Provincial Department of Science and Technology and others relevant departments as "Provincial Level Enterprise Technology Centre". Such certification endorses the Group capabilities on innovation advancement and commercialized application.

On December 21, 2012, the Company together with the Advanced Industrial Technology Research Institute of Shanghai Jiao Tong University, Shanghai Research Institute of China Telecom Corporation Limited, Esurfing Venture Capital Co., Ltd., State Key Lab of Advanced Optical Communication Systems and Networks, Shanghai Boom Fiber Sensing Technology Co., Ltd. and Allian Stream Photonics Technology Co., Ltd. (the "Founders") have entered into a founding cooperative agreement (the "Cooperative Agreement") to jointly establish a cooperative innovation center for fiber optic communications and sensing technology (the "Fiber Optic Innovation Center"). The Fiber Optic Innovation Center is strategically positioned to cope with the country's robust demand and industrial development of fiber optic communications. It aims to promote research and development of innovative technology and to become a major cradle of scientific invention and technology commercialization for the fiber optic communications and sensing industry in 2015. The group will utilize resources of the Fiber Optic Innovation Center to establish milestones in developing new products in 2013.

Management Discussion and Analysis

Recently, the permission to establish and construct the Passive Optical Communication Technological Engineering Laboratory of Sifang Telecom was granted by Hebei Provincial Department of Development and Reform. The construction on such platforms for passive communication connection technology, product research and development, testing and application development has begun. The Group will then become equipped with comprehensive capabilities on passive optical component application development and related technology research.

OUTLOOK

The country's government has specifically reiterated "Broadband China" as a national strategy. The goal is to cover at least 250 million households of broadband subscribers nationwide by the end of the "Twelve Five-Year Plan" and be able to provided 20M and 4M of broadband access bandwidth to urban and rural households. With urbanization now set as recent top priority for the country, the pace of implementing "Broadband China" will accelerate.

Towards the end of 2012, the Ministry of Industry and Information Technology issued two new regulations, namely the "Regulations Governing the Design of Fiber-to-the-Home ("FTTH") Communication Devices in Residential Areas and Residential Buildings" (住宅區和住宅建築內光纖到戶通信設備工程設計規範) and the "Regulations Governing the Construction and Acceptance of FTTH Communication Devices in Residential Areas and Residential Buildings" (住宅區和住宅建築內光纖到戶通信設備工程施工及驗收規範), which require all residential buildings completed after April 1, 2013 to equip with optical fiber access along with such utilities as water, electricity and gas. This is clearly a sign that the government is accelerating the fiber-to-the-home initiative nationwide. With estimate of nearly 100 million residential buildings to be completed in the next three years, the number of broadband access users is expected to reach 350 million by 2015, further strengthening the market potential of fiber optic patch cords.

With the stronger than ever demand for mobile internet access, mobile services operators continue to install more mobile base stations for their existing 3G networks and expand their capacity to ease the pressure on transmission bottleneck. Recently, the Ministry of Industry and Information Technology has taken the lead to announce the possibility of issuing 4G licenses to telecom operators in 2013 and the mobile operators also announced their plan of their capital expenditures on the 4G network. Since fiber optic patch cord is one of the essential components for mobile networks and base stations, the Group is well position to ride on such new development.

Since the promulgation by the State Council on Tri-network Convergence, demand for relevant equipment has risen every year. As the pilot runs in 54 cities are near completion, the relevant market demand will further expand once Tri-network Convergence is being deployed nationwide.

Being the largest manufacturer of fiber optic patch cords in China, the Group will continue to benefit under favorable government policies on upgrade from copper wire to fiber optic network, further penetration of fiber to the home and tri-network convergence as well as the growing popularity of mobile internet. According to an independent research report, market size of China's fiber optic patch cords will amount to RMB5.21 billion in 2013, an increase of 17.6% over 2012, and will further grow to RMB7.18 billion by 2015.

Currently the Group reached a designed annual capacity of 18 million sets of fiber optic patch cord and is transforming its production processes to further boost capacity to meet the growth opportunities in the coming year. In addition, capability to provide butterfly fiber optic cable products and solutions specifically developed for FTTH connection is in place. The Group will also step up its R&D efforts to launch various types of specialized fiber optic patch cords and specialized soft optical cables for non-telecommunication customers.

Management Discussion and Analysis

Riding on our core competitiveness, brand recognition and presence in the international markets over the years, the Group has established new sales channels for overseas markets other than Ireland and New Zealand. We have been working closely with new international partners and are expected to make shipments to new oversea markets in 2013. The Group's goal is to penetrate into one country each year.

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, 2012.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has been in compliance with the principles and provisions of the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from January 1, 2012, to the date of this annual report.

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. The Company's compliance with the provisions and recommended best practices of the Corporate Governance Code are set out in the Corporate Governance Report contained in 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 27, 2013 to May 30, 2013, both dates inclusive, during which period no transfer of shares will be registered in order to ascertain shareholders' eligibility to attend and vote at the AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on May 24, 2013.

In addition, the register of members of the Company will be closed from June 7, 2013 to June 11, 2013, both dates inclusive, during which period no transfer of shares will be registered in order to ascertain shareholders' entitlement to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on June 6, 2013.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhao Bing, aged 42, 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 19 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, 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 49, 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 2012. 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 12 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 45, 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 12 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 47, 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) 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 3633). Mr. Hung also served as an independent non-executive director of Zhongtian International Limited (stock code 2379), 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, vice chairman 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

Mr. Xia Ni, aged 42, has been our executive director since April 1, 2012. He joined our Company as vice president since September 1, 2010. He is primarily responsible for our company's corporate finance and cooperative innovation center for fiber optic communications and sensing technology. Mr. Xia joined Sifang Telecom in August 2009 and served as the assistant to the chairman of Sifang Telecom. Mr. Xia has approximately 19 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 and Hong Kong Institue of Directors. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shi Cuiming, aged 73, has been our independent non-executive director since June 3, 2011. Mr. Shi currently serves as a senior consultant of CITICI Telecom International Holdings Limited (stock code 1883), a company listed on the Stock Exchange and had acted as the chairman of the board and executive director from 2004 to 2009. 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 59, has been our independent non-executive director since June 3, 2011. Dr. Ma has over 30 years of professional experience in accounting, financial management, industrial and commercial 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 power 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 semiconductor 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 modern Chinese medicines 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, a fellow member of the Australian Certified Practicing Accountants, an associate member of Chartered Secretaries Australia, an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants. 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 58, has been our independent non-executive director since June 3, 2011. Mr. Lui has approximately 32 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 56, 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 48, 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 55, 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 38, 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.

Corporate Governance Report

Dear Shareholders,

The Board of Directors (the "Board") of the Company is always committed to maintaining high standards of corporate governance. The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained to safeguard the interests of our shareholders, investors, customers and staff.

CORPORATE GOVERNANCE PRACTICES

During the year ended December 31, 2012, the Company has complied with the code provisions ("Code Provisions") of the former Code on Corporate Governance Practices (the "Former Code") and of the new Corporate Governance Code (the "CG Code") effective from 1 April 2012 as set out in Appendix 14 of the Listing Rules.

In view of the latest amendments to the Listing Rules and the CG Code, the Board has taken actions and measures to make sure that the Company is in all aspects in strict compliance. The current practices will be reviewed and updated regularly to be in line with the local and international corporate governance practices.

Explanations of how the principles of the CG Code were put into practice during the year are set out below, and in the Audit Committee Report, Nomination Committee Report and Remuneration Committee Report of this annual report. Further insight into the Company's corporate governance structure and practices is available in the corporate governance section of the Company's website.

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 had four board committee during 2012 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.

The Company has arranged directors and officers liability insurance for its directors and officers.

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.

Corporate Governance Report

BOARD COMPOSITION

The Board has a balance of skill and experience and a balanced composition of Executive and Non-executive Directors and is responsible for oversight of the management of the Company's business and affairs. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management of the Company.

The Board is also responsible for performing the functions set out in the CG Code D3.1. The Board will meet to develop, review and monitor the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and compliance manual applicable to employees and directors.

As at December 31, 2012 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, Member 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)*
Mr. Xia Ni	

Independent Non-executive Directors

Mr. Shi Cuiming	*(Chairman of Nomination Committee, Chairman of Remuneration Committee, Member of Audit Committee and Member of Corporate Governance 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)*

Mr. Xia Ni was appointed as an Executive Director on April 1, 2012. Mr. Song Zhiping retired as a Non-executive Director on June 5, 2012.

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 22 to 24.

Currently, the Company has three Independent Non-executive Directors ("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 Company has received annual confirmations of independence from all existing INEDs pursuant to Rule 3.13 of the Listing Rules and considers them independent.

Corporate Governance Report

All Directors, including the 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.

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

An one hour induction on "Overview of Listing Rules" was provided by the company secretary to Mr. Xia Ni who was appointed as director in April 2012.

Directors' training is an ongoing process. During the year, directors are provided with monthly updates on the Company's performance, position and prospects to enable the board as a whole and each director to discharge their duties. In addition, all directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year, the Company has also organised four sessions of training conducted by Hong Kong Institute of Directors for the directors of the Company. The training covered topics including the new Corporate Governance Code, the disclosure of price sensitive information and risk management in practice.

Corporate Governance Report

A summary of training courses attended by Directors during the year according to the records provided by the Directors is as follows:

Directors	Name of training course *(Note 1)*
Executive Directors	
Mr. Zhao Bing	1, 2, 3, 4
Mr. Meng Yuxiao	1, 2, 3, 4
Mr. Deng Xuejun	1, 2, 3, 4
Mr. Hung, Randy King Kuen	1, 2, 3, 4
Mr. Xia Ni	1, 2, 3, 4
Independent Non-executive Directors	
Mr. Shi Cuiming	1, 2, 3, 4
Dr. Ma Kwai Yuen	1, 2, 3, 4
Mr. Lui Pan	1, 2, 3, 4

Note 1:

1. Disclosure of price sensitive information (3 hours)
2. Principle of mergers and acquisitions (3 hours)
3. Re-development strategy for listed companies (3 hours)
4. Risk management in practice (2 hours)

(All training courses were conducted by the Hong Kong Institute of Directors)

BOARD AND BOARD COMMITTEES MEETINGS

Number of Meetings and Directors' Attendance

The Company held four full board meetings in the year 2012. The attendance records of each Director at the board and board committees 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	Nomination Committee Meeting
Executive Directors					
Mr. Zhao Bing *(Chairman of the Board)*	4/4	–	–	2/2	1/1
Mr. Meng Yuxiao	4/4	–	–	–	–
Mr. Deng Xuejun	4/4	–	–	–	–
Mr. Hung, Randy King Kuen	4/4	–	4/4	–	–
Mr. Xia Ni	4/4	–	–	–	–
Independent Non-executive Directors					
Mr. Shi Cuiming *(Chairman of Remuneration Committee/Chairman of Nomination Committee)*	4/4	4/4	4/4	2/2	1/1
Dr. Ma Kwai Yuen *(Chairman of Audit Committee/ Chairman of Corporate Governance Committee)*	4/4	4/4	4/4	–	1/1
Mr. Lui Pan	4/4	4/4	–	2/2	–

Corporate Governance Report

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 the Chairman and the CEO should be separate and should not be performed by the same individual.

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

The Board considered that vesting the roles of the CEO to different senior personnel is a unique but appropriate strategy for the Company at this point.

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

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

With the support of the Company Secretary and the senior management, the Chairman is 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 are to be discussed by the Board in a similarly timely manner.

Corporate Governance Report

FIVE HIGHEST PAID INDIVIDUALS AND EMOLUMENTS OF SENIOR MANAGEMENT

(a) Five highest paid individuals

The five highest paid individuals of the Group for the years ended December 31, 2012 included five directors (2011: four) of the Company, whose emoluments are disclosed in note 7 to financial statements.

(b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in note 7 to financial statements, the emoluments of the senior management whose profiles are included in the section "Directors and Senior Management" fell within the following bands:

Emolument band (RMB)	**2012** Number of individuals	2011 Number of individuals
100,000–500,000	**4**	3
Under 100,000	**–**	2
Total	**4**	5

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 as the code of conduct regarding securities transactions by the Directors of the Company. Having made specific enquiry, the Company confirm that the Directors complied with the required standard set out in the Model Code for the year ended December 31, 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES

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

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.

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.

Corporate Governance Report

CORPORATE GOVERNANCE COMMITTEE

The Company has set up a Corporate Governance Committee consisting 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.

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 Company'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 inside information by the Board to the Group's stakeholders.

Four meetings were held by the Corporate Governance Committee from January 1, 2012 to December 31, 2012. One meeting was held from January 1, 2013 up to the date of this Corporate Governance Report. These meetings were attended by all three members.

During the year, the Corporate Governance Committee had approved the shareholders' communication policy, code for securities transactions by relevant employees and inside information policy.

The Corporate Governance Committee had also 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.

Corporate Governance Report

AUDIT COMMITTEE

The Company has set up an Audit Committee consisting 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 had reviewed the Group's interim and annual results for the year ended December 31, 2012, including the accounting principles and practices adopted by the Company, in conjunction with the Company's external auditors. There were no material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

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

Please refer to the Audit Committee Report on page 38 for a summary of their work during the year.

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.

Please refer to the Nomination Committee Report on page 39 for a summary of their work during the year.

Corporate Governance Report

REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee consisting 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. Shi Cuiming.

The primary functions of the Remuneration Committee are to establish, review and make recommendations to the Board on the remuneration policy and practices of the Directors, Senior Management and employees, review and approve the terms of service contracts of Directors and to evaluate and make recommendations on remuneration packages on Directors and Senior Management.

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.

Details of the remuneration of the Directors for the year ended December 31, 2012 are set out in note 7 to the financial statements.

Please refer to the Remuneration Committee Report on page 40 for a summary of their work during the year.

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.

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 2012, a number of strategic action plans were developed, executed, implemented by relevant executives and management to achieve these goals and objectives.

Corporate Governance Report

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 has developed 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 Board is responsible for the internal control systems of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations.

The Company engaged an independent professional firm to conduct an assessment on the effectiveness of the internal controls systems of the Group in 2011. Results of the assessment were positive and subsequently the Group's internal audit department routinely inspect effectiveness of the Group's internal control systems and provides reports directly to the audit committee on a quarterly basis. The effectiveness of the Group's internal control systems was then reviewed and assessed by the Board during the year.

INTERNAL AUDIT

The Group has continued to engage the Internal Audit Department to perform internal audits for the Group. The Internal Audit Department performs independent internal audit reviews for all business functions in the Group on a systematic and ongoing basis. The audit committee endorses the internal audit plan annually. The Internal Audit Department has unrestricted access to all parts of the business and direct access to any level of management including the Chairman of the Company and the Chairman of the audit committee as it considers necessary. It submits regular reports for the audit committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the Internal Audit Department are monitored by the audit committee and management are directed to take appropriate remedial actions if necessary.

ANTI-FRAUD MEASURES

A whistle-blowing system has been installed since the IPO 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 procedures were formulated to enable the systematic, timely and uniform reporting of incidents such as potential fraud.

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, 2012.

Corporate Governance Report

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 pages 48 and 49.

AUDITORS' REMUNERATION

The fees in relation to the audit and other services provided by Ernst & Young, the external auditors of the Company, for the year ended December 31, 2012 amounted to RMB3,300,000 (2011: RMB3,610,000).

	Fee paid and payable	
	2012	2011
Services rendered for the Company	***RMB***	*RMB*
Audit services	**2,300,000**	3,000,000
Other services, including the review of interim financial statements	**1,000,000**	610,000
Total	**3,300,000**	3,610,000

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 1st and 3rd quarter of 2012 to update investors, and plan to extend this practice to every 1st and 3rd quarters in the coming years.

During 2012, 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.

Corporate Governance Report

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 and other members of the respective committees will answer questions at shareholders' meetings.

ANNUAL GENERAL MEETING

The Board attaches a high degree of importance to non-interrupted communications with shareholders, especially direct dialogue with them at the Company's annual general meetings. Shareholders are encouraged to actively participate in such meetings. All members of the Board, except Mr. Deng Xuejun, Mr. Song Zhiping, Mr. Shi Cuiming and Mr. Lui Pan, who was unable to attend due to other business obligations, and representatives of the independent auditors were present at the Company's 2012 annual general meeting held on June 5, 2012 to address questions and comments raised by shareholders.

In addition, the Company also provided further information on the 2012 annual general meeting in a circular to shareholders. The circular includes background information to the proposed resolutions and information on the retirement and re-election of directors in order to enable all shareholders to understand their rights at the annual general meeting and to make decisions with sufficient information.

No other general meeting of the Company was held during the year.

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.

Shareholder(s) holding not less than one-tenth of the Company's paid-up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office.

The Board has established a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness.

Corporate Governance Report

The Board has designated Mr. Randy King Kuen Hung, our executive director for shareholders and potential investors to put forward their inquiries to the Board. The contact information of Mr. Hung are posted on the Company's website. Shareholders can also write their enquiries to the Company's address on page 5 of this annual report.

The Company's Articles of Association and procedures for shareholders to propose a person for election as a director and other proposals together with sufficient contact detail have been posted on the Company's website. Shareholders may submit their proposals for election by writing to the Company Secretary at the address shown on page 5 of this annual report.

During the year, there was no change in the Company's Article of Association.

INFORMATION DISCLOSURE

The Company discloses information in compliance with the Listing Rules, and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling shareholders, investors as well as the public to make rational and informed decisions.

INSIDE INFORMATION

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance and the Listing Rules and has established an inside information disclosure policy with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.

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.

MEMBERS OF CORPORATE GOVERNANCE COMMITTEE

Dr. Ma Kwai Yuen *(Chairman)*
Mr. Shi Cuiming
Mr. Hung, Randy King Kuen

Dr. Ma Kwai Yuen
Chairman
Corporate Governance Committee

Hong Kong, March 28, 2013

Audit Committee Report

Dear Shareholders,

The audit committee formally met four times from January 1, 2012 to December 31, 2012, and one time from January 1, 2013 up to the date of this report. 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 financial information 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 2013 and recommended to approve the interim and annual results of 2012.

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 28, 2013

Nomination Committee Report

The Nomination Committee formally met one time during 2012.

On 28 March 2012, the Nomination Committee nominated Mr. Xia Ni to the Board for it to be appointed as a Director and recommend him to stand for election by Shareholders at the 2013 AGM. The nomination was made in accordance with the Company's nomination policy and against the objective criteria, with due regard for his professional experience, skills, knowledge and length of service. It had also taken into account his respective contributions to the Board and his firm commitment to his roles. On the same date, the Mr. Xia's nomination was accepted by the Board.

During the same meeting, the Nomination Committee further recommended Mr. Zhao Bing, Dr. Ma Kwai Yuen, Mr. Shi Cuiming and Mr. Lui Pan to stand for re-election by rotation by Shareholders at the 2012 AGM.

MEMBERS OF NOMINATION COMMITTEE

Mr. Shi Cuiming *(Chairman)*
Dr. Ma Kwai Yuen
Mr. Zhao Bing

Mr. Shi Cuiming
Chairman
Nomination Committee

Hong Kong, March 28, 2013

Remuneration Committee Report

Dear Shareholders,

The primary functions of the Remuneration Committee are to establish, review and make recommendations to the Board on the remuneration policy and practices of the Directors, Senior Management and employees, assessing performance of directors and to evaluate and make recommendations on remuneration packages on Directors and Senior Management.

Two meetings were held in 2012 in which the remuneration committee resolved to appoint Mr. Shi Cuiming, an Independent Non-executive Director, as chairman of the Committee and discussed the remuneration of Mr. Xia Ni, a newly appointed director, and advised to the Board accordingly.

Details of the Directors' remuneration and five highest paid employees are disclosed on note 7 to the consolidated financial statements. Share options granted under the Company's share option scheme are disclosed on pages 44 to 45.

MEMBERS OF REMUNERATION COMMITTEE

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

Mr. Shi Cuiming
Chairman
Remuneration Committee

Hong Kong, March 28, 2013

Directors' Report

The Board is pleased to present to the shareholders this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2012.

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, 2012, prepared in accordance with the international accounting standards, are set out in the consolidated income statements on page 50 of this annual report.

DIVIDEND

The directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on May 30, 2013 ("the Annual General Meeting"), the payment of a final dividend of HK1 cent (2011: Nil) per share in respect of the year ended December 31, 2012 payable on June 20, 2013 to shareholders on the Register of Members at the close of business on June 7, 2013.

FINANCIAL HIGHLIGHTS

A summary of the results and assets and liabilities for the last five years, as extracted from the relevant audited financial statements, is set out on page 3 of this annual report. The summary does not form part of the audited 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.

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 53 of this annual report and note 27 to the financial statements respectively.

At December 31, 2012, the Company has no distributable reserve (2011: HK$Nil), represented by share premium less accumulated losses of the Company. Under the Companies law (2001 Second Revision) of the Cayman Islands, share premium of the Company is distributable to the members, subject to a solvency test.

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.

INTEREST-BEARING BANK LOANS

The interest-bearing bank loans of the Group as at December 31, 2012 amounted to RMB410,284,000 (2011: RMB497,500,000). Particulars of interest-bearing bank loans are set out in note 23 to the Financial Statements.

Directors' Report

DIRECTORS

The Directors who held office 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
Mr. Xia Ni (appointed on April 1, 2012)

Non-executive Directors:
Mr. Song Zhiping (retired on June 5, 2012)

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 22 to page 24 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhao Bing, Mr. Meng Yuxiao, Mr. Deng Xuejun and Mr. Hung, Randy King Kuen, Mr. Xia Ni has entered into a service contract with the Company for a term of three years. 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 financial statements on page 77 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' Report

DIRECTORS' INTERESTS IN SHARES

As at December 31, 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 December 31, 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	Natural 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:

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

Directors' Report

(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, 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%

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.

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.

Directors' Report

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 December 31, 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 to the date of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 79.7% of the aggregate amount of turnover were attributable to the Group's 5 largest customers with the largest customer accounting for 34.4% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's 5 largest suppliers was approximately 91.7% of the total purchases of the Group with the largest supplier accounting for 34.5% 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.

Directors' Report

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 the year December 31, 2012, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are acquired to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

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 2012 as required under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group did not have any donations to charitable and non-profit-making organization (2011: HK$1.0 million).

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements.

CORPORATE GOVERNANCE

A report on the principal Corporate Governance practices adopted by the Company is set out in "Corporate Governance Report" on page 25.

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.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDITORS

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

On behalf of the Board
Zhao Bing
Chairman

Hong Kong, March 28, 2013

Independent Auditors' Report

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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 50 to 102, which comprise the consolidated and company statements of financial position as at December 31, 2012, 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 (continued)

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, 2012, 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 28, 2013

Consolidated Statement of Comprehensive Income

Year ended December 31, 2012

	Notes	**2012** **RMB'000**	2011 RMB'000
REVENUE	*4*	**1,494,223**	1,257,034
Cost of sales		**(1,067,732)**	(857,522)
Gross profit		**426,491**	399,512
Other income	*5*	**6,802**	3,660
Selling and distribution expenses		**(6,651)**	(9,114)
Administrative expenses		**(60,516)**	(67,438)
Other expenses		**(75)**	(343)
Finance costs	*6*	**(37,730)**	(27,467)
PROFIT BEFORE TAX	*6*	**328,321**	298,810
Income tax expense	*8*	**(56,149)**	(45,559)
PROFIT FOR THE YEAR	*9*	**272,172**	253,251
OTHER COMPREHENSIVE INCOME			
Foreign currency translation		**(3,034)**	(4,328)
Total comprehensive income for the year attributable to owners of the Company		**269,138**	248,923
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	*10*	**RMB0.224**	RMB0.242

Details of the dividends proposed for the year ended December 31, 2012 are disclosed in note 28 to the financial statements.

Consolidated Statement of Financial Position

December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**777,295**	665,243
Prepaid land lease payments	12	**25,448**	26,043
Payments in advance	13	**38,499**	105,426
Goodwill	15	**15,563**	15,563
Deferred tax assets	16	**2,447**	1,645
Total non-current assets		**859,252**	813,920
CURRENT ASSETS			
Inventories	17	**36,703**	28,424
Trade receivables	18	**843,440**	751,093
Prepayments, deposits and other receivables	19	**25,804**	23,272
Pledged bank balances	20	**3,868**	31,160
Cash and cash equivalents	20	**795,823**	550,430
Total current assets		**1,705,638**	1,384,379
CURRENT LIABILITIES			
Trade and notes payables	21	**189,953**	105,248
Other payables and accruals	22	**353,337**	280,202
Tax payable		**103,234**	83,890
Interest-bearing bank loans	23	**410,284**	497,500
Total current liabilities		**1,056,808**	966,840
NET CURRENT ASSETS		**648,830**	417,539
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,508,082**	1,231,459

Consolidated Statement of Financial Position

December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	24	**3,727**	4,707
Deferred tax liabilities	16	**11,202**	6,742
Total non-current liabilities		**14,929**	11,449
Net assets		**1,493,153**	1,220,010
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	**7,871**	7,871
Reserves	27	**1,475,436**	1,212,139
Proposed final dividend	28	**9,846**	–
Total equity		**1,493,153**	1,220,010

Zhao Bing
Director

Meng Yuxiao
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2012

	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	Proposed final dividend 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 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	5,806	(5,806)	–	–	–	–	–	–	–	–
Issue of new shares	2,053	313,895	–	–	–	–	–	–	–	315,948
Share 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 and 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 year	–	–	–	–	–	–	–	272,172	–	272,172
Other comprehensive income for the year:										
Exchange difference on foreign currency translation	–	–	–	–	–	–	(3,034)	–	–	(3,034)
Total comprehensive income for the year	–	–	–	–	–	–	(3,034)	272,172	–	269,138
Equity-settled share option arrangement	–	–	–	–	4,005	–	–	–	–	4,005
Proposed final 2012 dividend *(note 28)*	–	(9,846)	–	–	–	–	–	–	9,846	–
Transfer from/(to) reserves	–	–	19,823	–	–	–	–	(19,823)	–	–
At December 31, 2012	7,871	340,206	78,139	59,906	7,440	62,825	(1,163)	928,083	9,846	1,493,153

* These reserves accounts comprise the consolidated reserves of RMB1,475,436,000 (2011: RMB1,212,139,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**328,321**	298,810
Adjustments for:			
Depreciation	6	**60,644**	39,320
Amortization of prepaid land lease payments	6	**619**	643
Loss on disposal of items of property, plant and equipment	6	**–**	258
Interest on bank loans	6	**37,345**	25,893
Equity-settled share option expense	26	**4,005**	3,435
Bank interest income	5	**(4,898)**	(1,245)
Deferred income released	5	**(980)**	(593)
		425,056	366,521
Increase in inventories		**(8,279)**	(3,396)
Increase in trade receivables		**(92,755)**	(190,877)
Increase in prepayments, deposits and other receivables		**(2,556)**	(11,704)
Increase in trade and notes payables		**84,705**	85,702
Increase in other payables and accruals		**39,723**	82,271
Cash generated from operations		**445,894**	328,517
Interest paid		**(37,936)**	(25,378)
Interest received		**4,898**	1,245
Income tax paid		**(33,147)**	(5,459)
Net cash flows from operating activities		**379,709**	298,925
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(71,766)**	(307,163)
Addition to prepaid land lease payments		**–**	(1,115)
Proceeds from disposal of items of property, plant and equipment		**–**	7
Decrease/(increase) in pledged bank balances		**27,292**	(29,960)
Net cash flows used in investing activities		**(44,474)**	(338,231)

Consolidated Statement of Cash Flows (continued)

Year ended December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	315,948
Share issue expenses		**–**	(25,725)
New bank loans		**503,966**	658,710
Repayment of bank loans		**(590,900)**	(434,710)
Dividends paid		**–**	(51,206)
Net cash flows from/(used in) financing activities		**(86,934)**	463,017
NET INCREASE IN CASH AND CASH EQUIVALENTS		**248,301**	423,711
Cash and cash equivalents at beginning of year		**550,430**	127,595
Effect of foreign exchange rate changes, net		**(2,908)**	(876)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**795,823**	550,430
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*20*	**795,823**	550,430

Statement of Financial Position

December 31, 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Office equipment		**44**	51
Investments in subsidiaries	14	**283,376**	132,008
Due from a subsidiary	14	**30,000**	–
Total non-current assets		**313,420**	132,059
CURRENT ASSETS			
Due from subsidiaries	14	**244,135**	80,167
Prepayments and other receivables		**940**	621
Cash at banks	20	**107,226**	201,024
Total current assets		**352,301**	281,812
CURRENT LIABILITIES			
Other payables		**1,526**	1,527
Due to subsidiaries	14	**299,615**	38,590
Total current liabilities		**301,141**	40,117
NET CURRENT ASSETS		**51,160**	241,695
Net assets		**364,580**	373,754
EQUITY			
Issued capital	25	**7,871**	7,871
Reserves	27	**346,863**	365,883
Proposed final dividend	28	**9,846**	–
Total equity		**364,580**	373,754

Zhao Bing
Director

Meng Yuxiao
Director

Notes to Financial Statements

December 31, 2012

1. CORPORATE INFORMATION

China Fiber Optic Network System Group Ltd. (the "Company") is a limited liability company incorporated in the Cayman Islands on August 7, 2006 under the Companies Law 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 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 year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the business of 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 under the 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 Company and its subsidiaries for the year ended December 31, 2012. 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, 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's 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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 *— Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) *— Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	*Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

1 Effective for annual periods beginning on or after July 1, 2012
2 Effective for annual periods beginning on or after January 1, 2013
3 Effective for annual periods beginning on or after January 1, 2014
4 Effective for annual periods beginning on or after January 1, 2015

Notes to Financial Statements

December 31, 2012

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

Further information about these IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from January 1, 2013.

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

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

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from January 1, 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in SIC-12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities 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.

Notes to Financial Statements

December 31, 2012

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

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC-12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in June and October 2012 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.

The IAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from January 1, 2013.

IAS 19 Amendments includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 Amendments from January 1, 2013.

Notes to Financial Statements

December 31, 2012

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

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2014.

The *Annual Improvements to IFRSs 2009–2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from January 1, 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies 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 to measure 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 at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognized in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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 acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

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

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation 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 an 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.

Notes to Financial Statements

December 31, 2012

2.4 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.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is calculated on the straight-line basis to write-off 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	5–15 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 including 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 or installation and testing, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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 costs" 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.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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.

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 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.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortized cost *(continued)*

The carrying amount of the asset is reduced through the use of an allowance account and 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 write-off is later recovered, the recovery is credited to "Other expenses" in profit or loss.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and notes payables, other payables 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.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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.

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.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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.

Notes to Financial Statements

December 31, 2012

2.4 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 over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

Share-based payments

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 payments, 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.

No expenses is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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 payments, 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.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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 have been capped to HK$1,250 per month since June 1, 2012 (previously 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.

Notes to Financial Statements

December 31, 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

The functional currency of the Company and its subsidiary incorporated outside the PRC is the United States dollar ("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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss are recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

As at 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 prevailing 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 those 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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, 2012 was RMB15,563,000 (2011: RMB15,563,000). Further details are given in note 15.

Notes to Financial Statements

December 31, 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(b) Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the two years ended December 31, 2012 and 2011.

(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, so 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, 2012 was RMB103,234,000 (2011: RMB83,890,000).

(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, adjusted for incremental costs that would be directly attributable to the disposal of the asset. If there is no binding sale agreement or active market for the asset, fair value less costs to sell is based on the best information available to reflect the amount that the Group could obtain at the end of the reporting period of the asset in an arm's length transaction after deducting the costs for disposal. 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, 2012 was RMB777,295,000 (2011: RMB665,243,000).

Notes to Financial Statements

December 31, 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(f) Deferred tax assets

Deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax assets 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, 2012 was RMB2,447,000 (2011: RMB1,645,000). 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 a similar nature. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories at December 31, 2012 was RMB36,703,000 (2011: RMB28,424,000).

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:

	2012		2011	
	RMB'000	***%***	*RMB'000*	*%*
Fiber optic patch cords	**1,476,511**	**98.8**	1,233,500	98.1
Connection and distribution product series	**5,880**	**0.4**	11,532	0.9
Equipment room accessories	**11,832**	**0.8**	12,002	1.0
	1,494,223	**100.0**	1,257,034	100.0

Notes to Financial Statements

December 31, 2012

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

Entity-wide disclosures *(continued)*

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.

	2012	2011
	RMB'000	*RMB'000*
Domestic*:		
— Mainland China	**1,293,641**	1,035,675
Overseas:		
— Ireland	**64,521**	3,295
— New Zealand	**136,061**	218,064
	200,582	221,359
	1,494,223	1,257,034

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

At the end of the reporting period, except for the payment in advance of RMB1,935,000 (2011: Nil) for the purchase of a property in Hong Kong , all of the Group's non-current assets were located in Mainland China.

Information about major customers

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

	2012	2011
	RMB'000	*RMB'000*
Customer A	**514,285**	429,275
Customer B	**233,378**	159,883
Customer C	**187,895**	159,267
Customer D	**	218,064

** Less than 10%.

Notes to Financial Statements

December 31, 2012

5. OTHER INCOME

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

	2012	2011
	RMB'000	*RMB'000*
Government grants*	**–**	950
Deferred income released *(note 24)*	**980**	593
Bank interest income	**4,898**	1,245
Rental income	**879**	740
Others	**45**	132
Total other income	**6,802**	3,660

* 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:

		2012	2011
	Notes	***RMB'000***	*RMB'000*
Cost of inventories sold		**1,067,732**	857,522
Employee benefit expense			
(including directors' remuneration as set out in note 7):			
Wages and salaries		**15,737**	11,691
Equity-settled share option expense	*26*	**4,005**	3,435
Pension scheme contributions			
— Defined contribution fund		**1,666**	1,528
Total employee benefit expense		**21,408**	16,654
Interest on bank loans		**37,345**	25,893
Bank loan guarantee fees		**385**	1,574
Finance costs		**37,730**	27,467
Auditors' remuneration		**3,300**	3,000
Depreciation of items of property, plant and equipment	*11*	**60,644**	39,320
Amortization of prepaid land lease payments	*12*	**619**	643
Operating lease rental in respect of a building		**811**	751
Loss on disposal of items of property, plant and equipment		**–**	258
Research and development costs		**4,480**	4,600

Notes to Financial Statements

December 31, 2012

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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Fees	**537**	320
Other emoluments:		
Salaries, allowances and benefits in kind	**3,811**	2,976
Equity-settled share option expense	**4,005**	3,435
Pension scheme contributions	**70**	66
	7,886	6,477
	8,423	6,797

In 2011, 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 paid to independent non-executive directors during the year were as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Mr. Shi Cuiming	**163**	98
Mr. Lui Pan	**163**	98
Dr. Ma Kwai Yuen	**211**	124
	537	320

There were no other emoluments payable to the independent non-executive directors during the year (2011:Nil).

Notes to Financial Statements

December 31, 2012

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

(b) Executive directors and a non-executive director

	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*
2012					
Executive directors					
Zhao Bing	**–**	**810**	**–**	**–**	**810**
Meng Yuxiao	**–**	**723**	**1,335**	**11**	**2,069**
Hung, Randy King Kuen	**–**	**1,628**	**1,335**	**11**	**2,974**
Deng Xuejun	**–**	**123**	**1,335**	**37**	**1,495**
Xia Ni	**–**	**527**	**–**	**11**	**538**
	–	**3,811**	**4,005**	**70**	**7,886**
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

The non-executive director was Mr. Song Zhiping who resigned as a non-executive director on June 5, 2012. There was no emolument and compensation payable to the non-executive director for the years ended December 31, 2012 and 2011.

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

Notes to Financial Statements

December 31, 2012

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

(c) Five highest paid employees

The five highest paid employees during the year included five directors (2011: four), details of whose remuneration are set out in note 7(b) above. Details of the remuneration of the remaining one non-director, highest paid employee for the year ended December 31, 2011 was as follows:

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

The remuneration of the above highest paid employee during 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:

	2012 ***RMB'000***	2011 *RMB'000*
Current — Mainland China		
Charge for the year	**52,491**	41,779
Deferred *(note 16)*	**3,658**	3,780
	56,149	45,559

Notes to Financial Statements

December 31, 2012

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:

	2012 **RMB'000**	2011 *RMB'000*
Profit before tax	**328,321**	298,810
Tax at the applicable tax rate of 15% *(2011: 12.5%)*	**49,248**	37,351
Effect of withholding tax at 10% on the distributable profit of Sifang Telecom *(note 16)*	**4,460**	4,206
Expenses not deductible for tax	**2,441**	4,002
Tax charge at the Group's effective tax rate	**56,149**	45,559

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 "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. Therefore, Sifang Telecom was subject to a reduced CIT rate of 12.5% in 2011.

During the year, Sifang Telecom has been identified as high and new technology enterprise and is entitled to a preferential CIT rate of 15%.

9. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year includes a loss of RMB11,475,000 (2011: RMB24,202,000), 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 1,217,300,000 (2011: 1,047,593,973) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended December 31, 2012 and 2011 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market prices for the Company's shares during the years ended December 31, 2012 and 2011.

Notes to Financial Statements

December 31, 2012

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, 2012						
Cost:						
At January 1, 2012	237,612	412,024	8,201	2,194	124,327	784,358
Additions	–	5,884	1,453	540	164,819	172,696
Transferred from CIP	99,838	157,008	–	–	(256,846)	–
At December 31, 2012	337,450	574,916	9,654	2,734	32,300	957,054
Accumulated depreciation:						
At January 1, 2012	10,282	106,062	1,125	1,646	–	119,115
Provided for the year	8,461	50,892	982	309	–	60,644
At December 31, 2012	18,743	156,954	2,107	1,955	–	179,759
Net carrying amount:						
At January 1, 2012	227,330	305,962	7,076	548	124,327	665,243
At December 31, 2012	318,707	417,962	7,547	779	32,300	777,295
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

Notes to Financial Statements

December 31, 2012

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

At the end of each reporting period, certain of the Group's plant and machinery 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):

	2012 **RMB'000**	2011 RMB'000
Secured for interest-bearing bank loans	**258,111**	209,822
Secured for bank loans guaranteed by:		
Hebei Lianchuang Guarantee Co., Ltd.	**–**	39,921
Hebei Baode Guarantee Co., Ltd.	**–**	122,075
	258,111	371,818

12. PREPAID LAND LEASE PAYMENTS

	2012 **RMB'000**	2011 RMB'000
Carrying amount at January 1	**26,686**	26,214
Additions during the year	**–**	1,115
Recognized during the year	**(619)**	(643)
Carrying amount at December 31	**26,067**	26,686
Current portion included in prepayments, deposits and other receivables *(note 19)*	**(619)**	(643)
Non-current portion	**25,448**	26,043

As of December 31, 2012, prepaid land lease payments with a net book amount of RMB21,482,000 (2011: RMB20,380,000) 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, 2012 and 2011 were in respect of prepayments for the purchase of property, plant and equipment.

Notes to Financial Statements

December 31, 2012

14. INVESTMENTS IN SUBSIDIARIES

	2012 *RMB'000*	2011 *RMB'000*
Unlisted investments, at cost:	**283,376**	132,008
Amounts due from subsidiaries are repayable:		
On demand or within 1 year	**244,135**	80,167
In the fifth year	**30,000**	–
	274,135	80,167

The amounts due from subsidiaries as at December 31, 2012 and 2011 are unsecured and interest-free.

As at December 31, 2012, the amounts due from subsidiaries denominated in US$ and HK$ amounted to RMB50,284,000 and RMB83,396,000 (2011: RMB80,167,000 and Nil), respectively.

The amounts due to subsidiaries included in the Company's current liabilities as at December 31, 2012 and 2011 are unsecured, interest-free and repayable on demand. All amounts due to subsidiaries 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	RMB268,000,000	100	Manufacture and sale of fiber optic patch cords and other accessories
Pacific Gain Technologies	Hong Kong June 20, 2008	HK$1	100	Dormant
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
China Fiber Optic Holdings Limited	Hong Kong January 4, 2012	HK$1	100	Dormant

Notes to Financial Statements

December 31, 2012

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. The discount rate applied to the cash flow projections is 11.6% (2011: 11.5%).

Assumptions were used in the value in use calculation of the cash-generating unit for December 31, 2012 and December 31, 2011. 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 the discount rate are consistent with external information sources.

Notes to Financial Statements

December 31, 2012

16. DEFERRED TAX

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

Deferred tax assets

	Accrued expenses *RMB'000*
At January 1, 2011	1,219
Deferred tax credited to profit or loss during the year *(note 8)*	426
At December 31, 2011 and at January 1, 2012	1,645
Deferred tax credited to profit or loss during the year *(note 8)*	802
At December 31, 2012	2,447

Deferred tax liabilities

	Withholding tax on distributable profit of Sifang Telecom *RMB'000*
At January 1, 2011	2,536
Deferred tax charged to profit or loss during the year *(note 8)*	4,206
At December 31, 2011 and at January 1, 2012	6,742
Deferred tax charged to profit or loss during the year *(note 8)*	4,460
At December 31, 2012	11,202

Notes to Financial Statements

December 31, 2012

16. DEFERRED TAX *(continued)*

Pursuant to the resolution of the board of directors of Sifang Telecom dated July 16, 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 ended December 31, 2012 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 RMB4,460,000, 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 15% or 25% depending on whether the assets are expected to be realized in 2013, or 2014 and subsequently, respectively.

17. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**6,502**	18,844
Work in progress	**18,362**	4,879
Finished goods	**11,839**	4,701
	36,703	28,424

18. TRADE RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**843,440**	751,093
Impairment	**–**	–
	843,440	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.

Notes to Financial Statements

December 31, 2012

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:

	2012 RMB'000	2011 RMB'000
Within 1 month	**147,673**	152,140
1 to 3 months	**249,938**	318,341
3 to 6 months	**310,437**	210,256
6 to 12 months	**123,793**	37,358
12 to 16 months	**11,015**	32,885
Over 16 months	**584**	113
	843,440	751,093

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	**831,841**	672,886
Past due but not impaired		
Less than 1 month past due	**10,395**	11,919
Over 1 month but within 3 months past due	**611**	36,220
Over 3 months past due	**593**	30,068
	843,440	751,093

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, 2012, certain trade receivables with an aggregate amount of RMB81,869,000 (2011: RMB195,000,000) have been pledged to secure the Group's interest-bearing bank loans (note 23).

At the end of the reporting period, trade receivables of the Group denominated in US$ amounted to RMB81,869,000 (2011: RMB173,934,000).

Notes to Financial Statements

December 31, 2012

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Prepayments for purchase of raw materials	**23,927**	15,778
Prepaid land lease payments to be amortized within one year *(note 12)*	**619**	643
Guarantee deposit	**–**	5,000
Prepaid bank loan guarantee fee	**–**	385
Other receivables	**1,258**	1,466
	25,804	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.

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash and bank balances	**718,018**	401,219	**33,797**	20,653
Time deposits with original maturity less than 3 months	**81,673**	180,371	**73,429**	180,371
	799,691	581,590	**107,226**	201,024
Less: Pledged bank balances*	**(3,868)**	(31,160)	**–**	–
	795,823	550,430	**107,226**	201,024

* The pledged bank balances as of December 31, 2012 and December 31, 2011 represented cash at banks pledged for the issuance of banker acceptance (note 21).

Notes to Financial Statements

December 31, 2012

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	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**765,945**	578,131	**73,595**	197,585
US$	**32,796**	1,690	**32,774**	1,676
HK$	**950**	1,769	**857**	1,763
	799,691	581,590	**107,226**	201,024

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. Short term time deposits are made for varying periods of between two weeks and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE AND NOTES PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**184,145**	63,348
Notes payable	**5,808**	41,900
	189,953	105,248

Notes to Financial Statements

December 31, 2012

21. TRADE AND NOTES PAYABLES *(continued)*

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

	2012 **RMB'000**	2011 *RMB'000*
Within 3 months	**118,569**	68,315
3 months to 6 months	**4,419**	12,752
6 months to 1 year	**59,795**	21,886
Over 1 year	**7,170**	2,295
	189,953	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 the terms of maturity of within 180 days. As of December 31, 2012, notes payable are secured by the pledge of cash at banks of RMB3,868,000 (2011: RMB31,160,000) (note 20).

22. OTHER PAYABLES AND ACCRUALS

	2012 **RMB'000**	2011 *RMB'000*
Payables related to:		
Taxes and surcharges	**286,257**	254,204
Payroll and welfare	**9,301**	6,720
Construction of property, plant and equipment	**47,393**	13,390
Professional fees	**1,314**	1,314
Advance from government agencies	**1,500**	1,500
Others	**959**	250
	346,724	277,378
Accruals	**6,613**	2,824
	353,337	280,202

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

Notes to Financial Statements

December 31, 2012

23. INTEREST-BEARING BANK LOANS

	2012	2011
	RMB'000	*RMB'000*
Repayable within one year:		
Guaranteed	**–**	70,000
Secured	**410,284**	427,500
	410,284	497,500
The bank loans bear interest at fixed rates per annum in the range of:	**4.81% to 8.20%**	6.06% to 13.10%

As of December 31, 2012, except for the 4.81% bank loans amounting to RMB50,284,000 (2011: Nil) which are denominated in US$, all bank loans are 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	
	2012	2011
	RMB'000	*RMB'000*
Guaranteed by third parties:		
Hebei Baode Guarantee Co., Ltd. *(note 11)*	**–**	50,000
Hebei Lianchuang Guarantee Co., Ltd. *(note 11)*	**–**	20,000
	–	70,000

	Net book amount	
	2012	2011
	RMB'000	*RMB'000*
Secured by:		
Trade receivables *(note 18)*	**81,869**	195,000
Property, plant and equipment *(note 11)*	**258,111**	209,822
Prepaid land lease payments *(note 12)*	**21,482**	20,380

Notes to Financial Statements

December 31, 2012

24. DEFERRED INCOME

	2012 *RMB'000*	2011 *RMB'000*
At beginning of year	**4,707**	5,300
Released to profit or loss *(note 5)*	**(980)**	(593)
At end of year	**3,727**	4,707

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 installment rate of 10% or 20% per annum to match with the expected useful lives of the relevant assets.

25. SHARE CAPITAL

Shares	2012 *RMB'000*	2011 *RMB'000*
Authorized: 10,000,000,000 (2011: 10,000,000,000) ordinary shares of US$0.001 each	**64,716**	64,716
Issued and fully paid: 1,217,300,000 (2011:1,217,300,000) ordinary shares of US$0.001 each	**7,871**	7,871

There was no change in the authorized and issued capital of the Company during the year.

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 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 the options granted to them.

Notes to Financial Statements

December 31, 2012

26. SHARE OPTION SCHEMES *(continued)*

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.

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 directors, 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 unexercised share options currently permitted to be granted under the schemes is an amount equivalent, upon their exercise, to 10% of the issued shares of the Company immediately following the commencement of dealings in the shares of the Company on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the schemes within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company (other than a proposed independent non-executive director) or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than the independent non-executive director who is offered the option in question (if applicable). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.00 in total by the grantee.

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.

Notes to Financial Statements

December 31, 2012

26. SHARE OPTION SCHEMES *(continued)*

The following share options were outstanding under the Old Option Scheme as of December 31, 2012 and December 31, 2011:

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 exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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 the Group recognized a share option expense of HK$4,939,000 (approximately RMB4,005,000) during the year ended December 31, 2012 (2011: HK$4,236,000 (approximately RMB3,435,000)).

The fair value of equity-settled share options granted in 2011 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, of which 7,200 share options are exercisable with an exercise price of HK$1.2 per share. 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.

Notes to Financial Statements

December 31, 2012

27. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 53 of this annual report.

(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 a 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 amounts due from Sifang Telecom aggregated 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.

(e) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

Notes to Financial Statements

December 31, 2012

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, 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		(5,806)	–	–	–	–	(5,806)
Issue of new shares		313,895	–	–	–	–	313,895
Share issue expenses		(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
Total comprehensive loss for the year	9	–	–	–	(1,704)	(11,475)	(13,179)
Equity-settled share option arrangement	26	–	–	4,005	–	–	4,005
Proposed final 2012 dividend	28	(9,846)	–	–	–	–	(9,846)
At December 31, 2012		340,206	62,825	7,440	2,579	(66,187)	346,863

28. DIVIDENDS

	RMB'000
Proposed final in respect of the financial year ended December 31, 2012 of HK1 cent (2011: Nil) per ordinary share	9,846

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to Financial Statements

December 31, 2012

29. OPERATING LEASE ARRANGEMENTS

(a) Operating lease arrangements — As lessor

As lessor, the Group leases certain parts of its office buildings under operating lease arrangements with lease terms of five years. At December 31, 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2012	2011
	RMB'000	*RMB'000*
Within one year	**856**	879
In the second to fifth years, inclusive	**862**	1,104
After five years	**248**	–
	1,966	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. At December 31, 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012	2011
	RMB'000	*RMB'000*
Within one year	**1,506**	670
In the second to fifth years, inclusive	**4,065**	196
	5,571	866

Notes to Financial Statements

December 31, 2012

30. COMMITMENTS

In addition to the operating lease arrangements detailed in note 29 (b) above, the Group had the following capital commitments at the end of each reporting period:

	2012 **RMB'000**	2011 *RMB'000*
Contracted, but not provided for:		
— Property, plant and machinery	**31,319**	65,666

31. CONTINGENT LIABILITIES

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

32. 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:

	2012 **RMB'000**	2011 *RMB'000*
Basic salaries and other benefits	**4,326**	3,575
Equity-settled share option expense	**4,005**	3,435
Pension scheme contributions	**147**	96
	8,478	7,106

Notes to Financial Statements

December 31, 2012

33. 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 payables 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.

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.

Notes to Financial Statements

December 31, 2012

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

Liquidity risk *(continued)*

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, 2012				
	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	–	232,573	187,672	–	420,245
Trade and notes payables	7,170	59,795	122,988	–	189,953
Other payables and accruals	57,779	–	–	–	57,779
	64,949	292,368	310,660	–	667,977

	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 payables	2,295	68,315	34,638	–	105,248
Other payables and accruals	19,278	–	–	–	19,278
	21,573	248,137	371,853	–	641,563

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, pledged bank balances, trade and other receivables. Cash and cash equivalents and pledged bank balances are mainly deposits with state-owned banks in Mainland China and major reputable financial institutions in Hong Kong. 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, and therefore the Group is exposed to credit risk in the telecommunication industry as well.

Notes to Financial Statements

December 31, 2012

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

Credit risk *(continued)*

The carrying amounts of trade and other receivables, pledged bank balances 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 customers and 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 customers and 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.

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

	2012 ***RMB'000***	2011 *RMB'000*
Increase/(decrease) in profit before tax:		
If RMB weakens against US$	**3,219**	11,968
If RMB strengthens against US$	**(3,219)**	(11,968)

Notes to Financial Statements

December 31, 2012

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

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.

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 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 at the end of each reporting period were as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Interest-bearing bank loans	**410,284**	497,500
Trade and notes payables	**189,953**	105,248
Other payables and accruals	**353,337**	280,202
Tax payable	**103,234**	83,890
Less: Cash and cash equivalents	**(795,823)**	(550,430)
Pledged bank balances	**(3,868)**	(31,160)
Net debt	**257,117**	385,250
Equity	**1,493,153**	1,220,010
Equity and net debt	**1,750,270**	1,605,260
Gearing ratio	**15%**	24%

34. 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.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on March 28, 2013.