



# CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

*(Incorporated in the Cayman Islands with limited liability)*

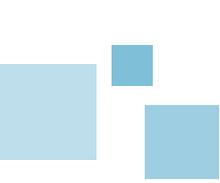
Stock code: 3777

Interim Report  
2013



# Contents

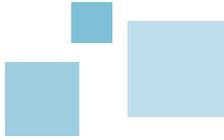
Financial Highlights	2
Company Overview	3
Corporate Information	4
Management Discussion and Analysis	6
Other Information	17
Report on Review of Interim Condensed Financial Information	20
Interim Condensed Financial Information	
Interim:	
Consolidated Statement of Comprehensive Income	21
Consolidated Statement of Financial Position	22
Consolidated Statement of Changes in Equity	24
Condensed Consolidated Statement of Cash Flows	25
Notes to Interim Condensed Financial Information	26



## Financial Highlights

For the six months ended June 30, 2013, operating results of the Group were as follows:

- Revenue reached RMB775,639,000, an increase of 8.5% from the corresponding period of last year;
- Gross profit margin was 26.5% as compared to 26.1% of the corresponding period of last year;
- Profit for the period amounted to RMB129,135,000, an increase of 16.2% over the corresponding period of last year;
- Basic and diluted earnings per share increased 16.5% to RMB10.6 cents over the corresponding period of last year; and
- No interim dividend was declared.



## Company Overview

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

The Group produces and sells a comprehensive portfolio of fiber optic patch cords 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.

The Group’s production facilities are located in Shijiazhuang, Hebei Province, with annual designed production capacity of 18 million sets of fiber optic patch cords and 130,000 km of soft optical cables.

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

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

# Corporate Information

## PLACE OF INCORPORATION

Cayman Islands

## FINANCIAL YEAR END

December 31

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRODUCTION FACILITIES IN THE PRC

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

## COMPANY'S WEBSITE

[www.chinafiber optic.com](http://www.chinafiber optic.com)

## INVESTOR RELATIONS CONTACT

Mr. Hung, Randy King Kuen  
*Executive Director & Chief Financial Officer*  
Tel: (852) 2877-8033  
Fax: (852) 2877-8083  
E-mail: [randyhung@chinafiber optic.com](mailto:randyhung@chinafiber optic.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

## 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:

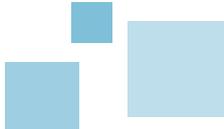
Grandall Legal Firm

### As to Cayman Islands law:

Maples and Calder

## AUDITORS

Ernst & Young



# Corporate Information

## 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

# Management Discussion and Analysis

## OVERVIEW

For the six months ended June 30, 2013 ("the Period"), the Group's revenue increased 8.5% to RMB775,639,000 as compared to the same period of last year.

The Group's profit for the Period increased by 16.2% from the corresponding period of last year to reach RMB129,135,000, as a result of revenue growth and expansions on both gross profit margin and net profit margin.

Basic and diluted earnings per share for the Period based on weighted average number of ordinary shares of 1,217,300,000 in issue increased 16.5% to RMB10.6 cents, over the corresponding period of last year.

## REVENUE BY PRODUCT CATEGORY

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

Revenue by product category during the six months ended June 30, 2013 and 2012 are set forth below:

	Six months ended June 30,		
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	Change
Fiber optic patch cords	606,890	702,730	(13.6%)
Connection and distribution products	120,644	3,765	3,104.4%
Equipment room accessories	48,105	8,095	494.3%
	<b>775,639</b>	714,590	8.5%

Driven by continuous investments on fiber to the home, total sales volume of fiber optic patch cords went up 16.7%. The 13.6% decline on sales revenue on fiber optic patch cords was primarily due to the changes in product sales mix in the domestic market. Proportion of orders on higher price range bundled patch cords and average length on fiber optic patch cord products were both reduced during the Period under review, thereby leading to the declines on both calculated average selling price and domestic revenue on fiber optic patch cords.

The decline on domestic revenue on fiber optic patch cords was compensated by strong sales growth of 3,104.4% and 494.3% respectively on connection and distribution products and equipment room accessories, as well as a surge of 45.2% on overseas sales of fiber optic patch cords. The increases in connection and distribution products and equipment room accessories were attributed to several centralized procurement tenders which the Group participated during the Period under review, while growth on overseas sales was a result of the Group's effort in offering more new product models and expansion to new countries.

Sales of fiber optic patch cords accounted for 78.2% of our total revenue for the six months ended June 30, 2013, as compared to 98.3% of the corresponding period of last year.

# Management Discussion and Analysis

## DOMESTIC AND OVERSEAS SALES

During the first half of 2013, sales of fiber optic patch cords to domestic and overseas customers accounted for 86.9% and 13.1% respectively as compared to 92.2% and 7.8% of the corresponding period of last year.

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

<b>Six months ended June 30,</b>			
	<b>2013</b>	2012	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
	<b>(Unaudited)</b>	(Unaudited)	
Domestic sales — fiber optic patch cords	<b>527,652</b>	648,168	(18.6%)
Domestic sales — other products	<b>168,749</b>	11,860	1,322.8%
	<b>696,401</b>	660,028	5.5%
Overseas sales — fiber optic patch cords	<b>79,238</b>	54,562	45.2%
	<b>775,639</b>	714,590	8.5%

Domestic sales of fiber optic patch cords was lower primarily because proportion of orders on bundled patch cords of higher price range was smaller and average length on fiber optic patch cord products was shorter during the Period under review. Please refer to the sales volume & average selling price section for detailed discussion on growth in volume and change in average selling price of domestic sales.

The Group has commenced selling fiber optic patch cords to Australia and United Kingdom during the first half of 2013. Overseas sales to Ireland, New Zealand, Australia and United Kingdom were RMB20,231,000, RMB55,169,000, RMB2,824,000 and RMB1,014,000 for the six months ended June 30, 2013, as compared to RMB20,437,000, RMB34,125,000, nil and nil respectively of the corresponding period of last year. The Group anticipates that overseas sales will be one of our key growth driver this year.

## SALES VOLUME & AVERAGE SELLING PRICE

The following summaries sales volume and average selling price of our fiber optic patch cords for the period ended June 30, 2013 and 2012:

	<b>First six months of 2013</b>		First six months of 2012	
	Sales volume (Sets)	Average Selling Price	Sales volume (Sets)	Average Selling Price
Fiber optic patch cords — domestic	<b>10,741,610</b>	<b>RMB49.1</b>	9,325,804	RMB69.5
Fiber optic patch cords — overseas	<b>500,082</b>	<b>US\$25.8</b>	310,000	US\$27.9
	<b>11,241,692</b>		9,635,804	

## Management Discussion and Analysis

A total of 11,241,692 sets of fiber optic patch cords were sold by the Group during the first half of 2013, representing a 16.7% increase in total sales volume. Domestic sales volume increased 15.2% while overseas sales volume jumped 61.3%.

The Group's pricing of its fiber optic patch cords is generally determined and vastly varied by the type of fiber, the type and length of soft optical cables, the type and specifications of connectors, the number of connectors, the volume and product quality being required and other additional specific requirements. As such, the Group's products have a wide range of selling prices.

Sales mix of the first half of 2013 consisted of a smaller proportion of patch cords with multiple connectors (also known as bundle patch cords) and average length of fiber optic patch cord products was shorter. Bundle patch cords are those usually with 6, 8 or 12 connectors on each end of the patch cords while non-bundle patch cords are those with 1 to 2 connectors on each end of the patch cords. Bundle patch cords and fiber optic patch cord products of long length were sold at a higher price range and therefore a smaller proportion of related sales would drive the average selling price lower, causing domestic fiber optic patch cords revenue lower.

Average selling prices of bundled and non-bundled patch cords sold to the domestic market were RMB133.9 and RMB40.4 per set as compared to RMB163.7 and RMB55.7 for the six months ended June 30, 2013 and 2012 respectively.

For the first six months of 2013, sales of bundle patch cords per set accounted for 25.2% of total domestic sales of patch cords as compared to 30.1% of the corresponding period of last year.

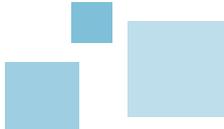
The growth in overseas sales volume was attributable to the increases in number of product models and orders sold to customers in New Zealand, Ireland, and our success in gaining new customers from Australia and United Kingdom. Looking forward, the Group will continue to expand overseas sales into more new countries together with launching more models for overseas customers.

### GROSS PROFIT MARGIN

For the first six months of 2013, overall gross profit margin of the Group was 26.5%, as compared to 26.1% for the corresponding period of last 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 the first six months of 2013 and 2012:

	First six months of 2013 Gross profit margin (Unaudited)	First six months of 2012 Gross profit margin (Unaudited)
Overall sales	26.5%	26.1%
Domestic sales — fiber optic patch cords	24.8%	24.2%
Overseas sales — fiber optic patch cords	54.4%	51.1%



## Management Discussion and Analysis

Gross profit margins for domestic and overseas sales disclosed above were calculated by reference of cost of goods sold derived based on machine hours allocated, while those disclosed in 2012 Interim Report were based on number of sets produced.

The gross profit margin improvement on domestic sales of fiber optic patch cords was primarily due to the smaller proportion of relatively lower margin bundled patch cords, together with more in-house production of soft optical cables.

Gross profit margins of connection distribution products and equipment room accessories were 18.8% and 19.0% respectively for the first six months of 2013.

The Group will continue to carry out the following measures to improve its gross profit margin:

- (a) Increase in bulk purchases.
- (b) Continue to increase in-house production of soft optical cables and other patch cord components.
- (c) Launch higher margin fiber optic patch cord models.
- (d) Accelerate expansion of overseas market.

During the Period under review, raw material, depreciation and wages accounted for 95.6%, 3.8%, 0.6% of costs of production respectively as compared to 96.4%, 3.3%, 0.3% for the corresponding period of last year.

### OTHER INCOME

During the first six months of 2013, other income increased by 201.9% to RMB6,113,000 as compared with the corresponding period of last year. The increase was mainly due to the increases in bank interest income.

### SELLING AND DISTRIBUTION EXPENSES

During the first six months of 2013, selling and distribution expenses of the Group increased by 77.1% to RMB3,446,000 as compared to the corresponding period of last year.

Selling and distribution expenses primarily consisted of transportation fees in connection with our sales, salaries of sales personnel, entertainment expenses, advertisement expenses and other expenses relating to our selling and distribution activities.

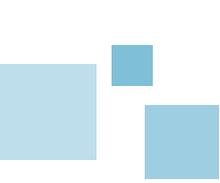
The increase of selling and distribution expenses was due to increases in transportation fee, number of sales staff and oversea marketing activities.

Selling and distribution expenses were 0.4% and 0.3% of revenue for the six months ended June 30, 2013, and 2012 respectively.

### ADMINISTRATIVE EXPENSES

For the first six months of 2013, administrative expenses increased only by 0.3% to RMB31,361,000 as compared to the corresponding period of last year.

Administrative expenses primarily consisted of wages and salaries paid to management and administrative personnel, professional fees, research and development costs, and depreciation of property, plant and equipment not related to production and share option expense.



## Management Discussion and Analysis

Wages and salaries increased from RMB6,738,000 to RMB8,187,000 during the first half of 2013 mainly due to the overall increases in headcounts and staff remuneration.

For the first six months of 2013, professional fees increased from RMB1,442,000 to RMB2,238,000 as compared to the corresponding period of last year.

Research and development costs were RMB9,044,000 and RMB2,700,000 for first half of 2013 and 2012 respectively. The increase was primarily because depreciation on machinery and equipment used for research and development was being grouped as research and development costs rather than from depreciation of property, plant and equipment not related to production commencing 2013. The Group continues to dedicate considerable efforts and resources to research and development to strength new product pipeline, and to design more specialized fiber optic patch cord models to suit specific needs of our customers.

Depreciation of property, plant and equipment not related to production were down to RMB2,854,000 for the six months ended June 30, 2013 from RMB9,008,000 for the six months ended June 30, 2012 as depreciation of machinery and equipment used for research and development was being grouped as research and development costs commencing 2013.

Share option expenses was RMB1,056,000 and RMB2,293,000 for the first half of 2013 and 2012 respectively.

For the first half of 2013 and 2012, administrative expenses accounted for 4.0% and 4.4% of total revenue respectively.

### FINANCE COSTS

Finance costs primarily consisted of interest expenses relating to the Group's bank loans.

For the first half of 2013 and 2012, finance costs accounted for 2.3% and 2.9% of total revenue respectively.

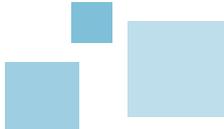
Finance costs decreased 14.4% to RMB17,539,000 as compared to the corresponding period of 2012. The decrease was primarily as a result of decreases both in average balance of bank loans and interest rate.

The effective interest rates of our bank loan were ranged from 2.15% to 7.80% and from 4.97% to 13.10% during the first half of 2013 and 2012 respectively.

### INCOME TAX EXPENSES

Income tax expenses increased 16.2% to RMB27,061,000 during the first half of 2013 as compared with the corresponding period of last year. The increase was in line with the increase in profit during the Period.

The effective tax rates for the first half of 2013 and 2012 remained stable at 17.3%. Hebei Sapphire Communication Equipment Co., Ltd. ("Sifang Telecom") is subject to a statutory income tax rate of 15% as Sifang Telecom was qualified as a high and new technology enterprise in 2011.



# Management Discussion and Analysis

The Company is not subject to any income tax in the Cayman Islands. No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the first half of 2012 and 2013.

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

## EARNINGS PER SHARE

There has been no change in number of shares issued and outstanding during the first half of 2013.

Basic and diluted earnings per share for the first half of 2013 calculated based on weighted average number of ordinary shares of 1,217,300,000 in issue were RMB10.6 cents, as compared to RMB9.1 cents representing an increase of 16.5% over the corresponding period of last year.

## PRODUCTION CAPACITY

As at 30 June 2013, the Group's annual production capacity of fiber optic patch cords, under 5 days work week, was 18 million sets.

The Group also has 10 soft optical cable production lines with annual designed capacity 130,000 km of soft optical cables. Among them, 5 production lines are capable of making butterfly type optic cables for fiber to the home wiring. The Group is currently constructing 10 additional soft optical cable production lines to boost increase annual capacity from 130,000 km to 260,000 km of soft optical cables.

## CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB125,040,000 for the six months ended June 30, 2013, which were mostly related to purchase of research equipment as well as upgrading and remodelling of production facilities, workshops and buildings.

Capital expenditures have been primarily funded by net cash generated from operation.

In the coming six months, the Group expects to incur additional capital expenditures of approximately RMB208,000,000 to, among other things, further increase production capacities of soft optical cables, purchase of production equipment, and upgrade of production facilities, workshops and buildings.

## INTERIM DIVIDEND

The Board resolved not to declare interim dividend for the six months ended June 30, 2013.

## DIVIDEND POLICY

On March 28, 2013, the Board resolved a dividend policy to declare dividend not less than 10% of annual net earnings commencing fiscal year 2013.

## CAPITAL STRUCTURE

During the first half of 2013, the Group financed its growth in business primarily by net cash inflow from operations and utilizing bank borrowings. Interest bearing bank loans decreased from RMB410,284,000 as at December 31, 2012 to RMB401,740,000 as at June 30, 2013.

There was no change in the Group's share capital during the first half of 2013.

# Management Discussion and Analysis

## GEARING RATIO

The Group monitors its leverage using a gearing ratio, which is net debt divided by equity plus net debt.

Net debt includes interest-bearing bank loans, trade and notes payables, other payables and accruals and tax payable less cash and cash equivalents and pledged bank balances.

The Group's policy is to keep the gearing ratio at a reasonable level.

The Group's gearing ratios as of June 30, 2013 and December 31, 2012 were 19.9% and 15.0% respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2013, cash and bank deposits amounted to RMB615,224,000 which comprised of RMB586,719,000, and others being equivalent to RMB1,198,000 and RMB27,307,000 denominated in Hong Kong Dollars and United States Dollars respectively.

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

## CASH FLOW ANALYSIS

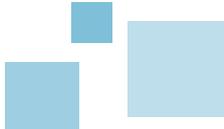
The following table sets forth selected cash flow data derived from our consolidated condensed statement of cash flows for the periods indicated.

	For the six months ended June 30,	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Net cash flows from operating activities	18,008	315,160
Net cash flows used in investing activities	(186,462)	(8,612)
Net cash flows (used in)/from financing activities	(17,536)	48,999
Net (decrease)/increase in cash and cash equivalents	(185,990)	355,547

Net cash flows from operating activities for the first six months of 2013 was primarily generated from profit before tax amounted to RMB156,196,000 netted by the increases of RMB74,684,000 and RMB82,580,000 in trade receivables and inventories respectively.

Net cash flows used in investing activities for the first six months of 2013 was primarily related to payments for RMB142,523,000 of capital expenditures and issuance of RMB50,000,000 of entrusted loan receivables.

Net cash inflows used in financing activities for the first six months of 2013 was primarily derived from payment of dividend of RMB9,846,000.



# Management Discussion and Analysis

## TRADE RECEIVABLES

Trade receivable balance as at June 30, 2013 was RMB918,713,000 as compared to RMB843,440,000 as at December 31, 2012. The increase in trade receivables is in line with the increase in revenue but also partly related to slower collection toward the end of June 2013.

As of June 30, 2013, there were RMB142,668,000 of trade receivables past due beyond the contractual credit term. Payments of RMB139,730,000 of these past due amounts were collected by the date of this report.

Trade receivable turnover days were 204 days and 195 days for the six months ended June 30, 2013 and for the year ended December 31, 2012 respectively. The Group expected that turnover days will remain stable for the remaining of the year.

There were no bad debt provisions made on trade receivables for both six months ended June 30, 2012 and 2013.

## INVENTORIES

Inventories as at June 30, 2013 was RMB119,283,000 as compared to RMB36,703,000 as at December 31, 2012.

Inventory turnover days were 25 days and 11 days for the six months ended June 30, 2013 and for the year ended December 31, 2012 respectively.

The increase of inventories is primarily attributable to the increase of RMB64,251,000 in finished goods. Substantially all of these finished goods were shipped to customers within the first week of July 2013.

## ENTRUSTED LOAN RECEIVABLES

The Group has engaged Agricultural Bank of China to act as a lending agent to release two entrusted loans in total principal amount of RMB50,000,000 to one of the Group's suppliers.

The entrusted loans are fully pledged by not less than RMB50,000,000 trade payables due by the Group to this supplier arising from the Group's procurements, in addition to a piece of land to be acquired by this supplier as collateral for repayment.

The purpose of the entrusted loans is an initiative of the Group to back this local supplier to further exploit into a strategic partner of the Group.

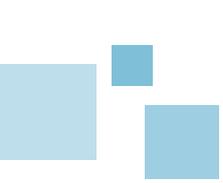
As at July 31, 2013, the Group held trade payables due to this supplier with an aggregate amount of RMB51,180,000.

Please refer to Note 9 to Interim Condensed Financial Information for more details.

## TRADE AND NOTES PAYABLES

Trade and notes payables as at June 30, 2013 was RMB153,382,000 as compared to RMB189,953,000 as at December 31, 2012.

Trade and notes payables turnover days were 54 days and 50 days for the six months ended June 30, 2013 and for the year ended December 31, 2012 respectively.



# Management Discussion and Analysis

## INDEBTEDNESS

As at June 30, 2013 and December 31, 2012, our total banking loans amounted to RMB401,740,000, and RMB410,284,000 respectively.

The effective interest rates of our bank loans per annum were 2.15% to 7.80% and 4.81% to 8.20% as at June 30, 2013 and December 31, 2012 respectively.

Please refer to Note 13 to Interim Condensed Financial Information for more details of our bank loans.

## OTHER PAYABLES AND ACCRUALS

Other payables and accruals consists primarily of taxes payable other than income tax, and payable to contractors. The slight decrease in balance was due to the increases in outstanding payables for upgrading and remodelling of facilities.

## CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at June 30, 2013.

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

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

## CHARGES ON ASSETS

As at June 30, 2013, the Group had pledged RMB365,302,000 (December 31, 2012: RMB361,462,000) of assets in order to secure notes payable, banking facilities or bank loans.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

As at June 30, 2013, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

## RELATED PARTY TRANSACTIONS

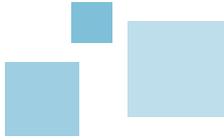
The Group had not entered into any material related party transactions for each of the six months periods ended June 30, 2013 and 2012.

## OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As at June 30, 2013, the Group did not have any off-statement of financial position arrangements.

## EMPLOYEES AND STAFF COSTS

As at June 30, 2013, the Group had 508 employees (June 30, 2012: 397 employees). During the Period, the Group had engaged independent human resource firm from time to time to provide temporary workers according to the need of production orders.



# Management Discussion and Analysis

Remuneration is determined and reviewed based on fair principles with reference to market conditions and individual performance.

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

## OUTLOOK

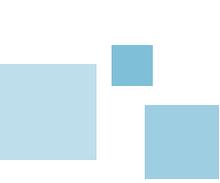
The State Council of China recently issued an "Opinion on Promoting Domestic Demand from Information Consumption". Aiming to accelerate information consumption scale and enhance information infrastructure, the Opinion reiterates implementing the "Broadband China" strategy to expedite construction and upgrade of networks and communications infrastructure as well as advancing fiber to the home ("FTTH") and popularizing broadband access and connectivity in municipals and rural areas. The Opinion also entails the enhancement of 3G network coverage and quality, as well as backing the issuance of 4G licenses within this year, and fostering tri-network convergence.

Shortly after the issuance of the Opinion, the State Council also published the "Broadband China Strategy and Implementation Plan" with a clear goal that by the end of 2013, broadband users should be more than 210 million with urban and rural household broadband penetration rate reaching 55% and 20% respectively. By 2015, there should be more than 270 million broadband users while urban and rural households broadband penetration rate to reach 65% and 30%. By 2020, number of broadband subscribers is target to extend to 400 million, penetrating more than 70% of households in China. As the largest fiber optic patch cord manufacturer in China, the Group's business will continue to benefit from the country's favorable policies.

Following with nationwide implementation of the two national regulations issued by the Ministry of Industry and Information Technology, namely "Regulations Governing the Design 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施工程設計規範) 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施工程施工及驗收規範), newly constructed residential areas and residential buildings in county and municipal have since been built with FTTH ready communication infrastructure from April 1, 2013 onwards. Robust demand for fiber optic patch cords from FTTH is expected to continue. The forthcoming issuance of 4G licenses will further provide the Group with another strong growth driver.

In addition, countries around the globe are also striving for developing "Smart City". Demand for fiber optic network related equipment from overseas market is promising. Among them, Australia is currently building its "National Broadband Network" with planned FTTH rollout to reach approximately 93 percent of premises in Australia by year 2021. New Zealand is also implementing its "Ultra-Fast Broadband" initiative, targeting that 75 percent of New Zealanders will be connected to ultra-fast broadband by year 2019.

To cope with the growing market demand, the Group has been actively recruiting talents and fortifying collaborations with strategic partners. At the same time, the Group is implementing growth strategies focusing on enhancement of core competitiveness to expand our business scope and profitability. Firstly, the Group is working diligently on integration of supply chain, including expansion on production capacity of soft optical cables while continuing to explore other opportunities for vertical integration. In addition, the Group has been actively expanding its research and development capabilities in order to develop and introduce more new products to meet changing needs of customers from telecom sector and other industries. Moreover, the Group is actively launching more models of fiber optic patch cords to overseas market, and target to add one new country every year. Riding on our strong foothold in China, the Group is determined to become one of the world's leading fiber optic patch cords manufacturers.



# Management Discussion and Analysis

## AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's auditors the interim results, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of interim condensed financial information for the six months ended June 30, 2013.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2013, 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").

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 the 2012 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 during the first half of 2013.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended June 30, 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## APPRECIATION

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

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

Hong Kong, August 28, 2013

## Other Information

### SHARE OPTION SCHEMES

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

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

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

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

Directors	Date of Grant (Note 1)	Exercise price per Share HK\$	As at January 1, 2013	Granted during the Period	Exercised during the Period	Forfeited during the Period	Cancelled during the Period	As at June 30, 2013	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.

During the Period, no share options were granted, exercised, cancelled or lapsed under the Share Option Scheme. Details of the Share Option Scheme of the Company as at June 30, 2013 are set out in Note 15 to Interim Condensed Financial Information.

On July 2, 2013, 76,400,000 share options were granted to certain grantees (the "Share Option") under the New Option Scheme, among which 27,900,000 share options were granted to executive directors and independent non-executive directors of the Company. Please refer to the Company's announcement dated July 2, 2013 for further details and the details of the Share Option are set out in Note 19 to Interim Condensed Financial Information.

## Other Information

### DIRECTORS' INTERESTS IN SHARES

As at June 30, 2013, Disclosures of Interests required under Section 352 of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("SFO") and the Model Code are as follow:

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

As at June 30, 2013, 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 corporations	Nature of interest	Number of Shares	Number of underlying shares <sup>(2)</sup>	Aggregate interest	Approximate percentage of interest
Mr. Zhao Bing	the Company	Interest of controlled corporation	513,955,012 Shares <sup>(1)</sup>	–	513,955,012	42.22%
	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	200,000 Shares	–	200,000	0.02%
Mr. Shi Cuiming	the Company	Beneficial interest	110,000 Shares	–	110,000	0.01%
Dr. Ma Kwai Yuen	the Company	Beneficial interest	500,000 Shares	–	500,000	0.04%

Notes:

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

## Other Information

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

#### Long positions in the Shares, underlying shares and debentures

As at June 30, 2013, 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	513,955,012	42.22%
Mr. Zhao Bing <sup>(1)</sup>	Interest of controlled corporation	513,955,012	42.22%

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.

# Report on Review of Interim Condensed Financial Information



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

安永會計師事務所  
香港中環添美道1號  
中信大廈22樓

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

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

*(Incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim condensed financial information set out on pages 21 to 40, which comprises the consolidated statement of financial position of China Fiber Optic Network System Group Ltd. as at June 30, 2013 and the related consolidated statements of comprehensive income, changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

## SCOPE OF REVIEW

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

## CONCLUSION

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

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

August 28, 2013

# Interim Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2013

		For the six months ended June 30,	
	Notes	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
<b>REVENUE</b>	3	<b>775,639</b>	714,590
Cost of sales		<b>(570,068)</b>	(528,408)
<b>Gross profit</b>		<b>205,571</b>	186,182
Other income	4	<b>6,113</b>	2,025
Selling and distribution expenses		<b>(3,446)</b>	(1,946)
Administrative expenses		<b>(31,361)</b>	(31,252)
Other expenses		<b>(3,142)</b>	(55)
Finance costs	5	<b>(17,539)</b>	(20,487)
<b>PROFIT BEFORE TAX</b>	5	<b>156,196</b>	134,467
Income tax expense	6	<b>(27,061)</b>	(23,290)
<b>PROFIT FOR THE PERIOD</b>		<b>129,135</b>	111,177
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item to be reclassified subsequently to profit or loss:</i>			
Foreign currency translation		<b>1,986</b>	856
Total comprehensive income for the period attributable to owners of the Company		<b>131,121</b>	112,033
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	7	<b>RMB0.106</b>	RMB0.091

# Interim Consolidated Statement of Financial Position

June 30, 2013

	Notes	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	885,429	777,295
Prepaid land lease payments	8	25,139	25,448
Payments in advance		3,514	38,499
Goodwill		15,563	15,563
Entrusted loan receivables	9	50,000	–
Deferred tax assets		3,250	2,447
Total non-current assets		982,895	859,252
<b>CURRENT ASSETS</b>			
Inventories		119,283	36,703
Trade receivables	10	918,713	843,440
Prepayments, deposits and other receivables	11	12,959	25,804
Pledged bank balances	12	4,848	3,868
Cash and cash equivalents		610,376	795,823
Total current assets		1,666,179	1,705,638
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	12	153,382	189,953
Other payables and accruals	13	350,953	353,337
Tax payable		110,960	103,234
Interest-bearing bank loans	14	349,669	410,284
Total current liabilities		964,964	1,056,808
<b>NET CURRENT ASSETS</b>		<b>701,215</b>	<b>648,830</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,684,110</b>	<b>1,508,082</b>

# Interim Consolidated Statement of Financial Position

June 30, 2013

	Notes	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	14	52,071	–
Deferred income		3,237	3,727
Deferred tax liabilities		13,318	11,202
Total non-current liabilities		68,626	14,929
<b>Net assets</b>		<b>1,615,484</b>	1,493,153
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital		7,871	7,871
Reserves		1,607,613	1,475,436
Proposed final dividend	16	–	9,846
Total equity		1,615,484	1,493,153

**Zhao Bing**  
Director

**Meng Yuxiao**  
Director

# Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 2013

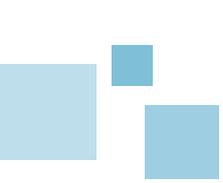
	Issued capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserve fund <i>RMB'000</i>	Special reserve <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Capital contribution reserve <i>RMB'000</i>	Foreign translation reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Proposed final dividend <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2012	7,871	350,052	58,316	59,906	3,435	62,825	1,871	675,734	-	1,220,010
Profit for the period	-	-	-	-	-	-	-	111,177	-	111,177
Other comprehensive income for the period:										
Exchange difference on foreign currency translations	-	-	-	-	-	-	856	-	-	856
Total comprehensive income for the period	-	-	-	-	-	-	856	111,177	-	112,033
Equity-settled share option arrangements (note 15)	-	-	-	-	2,293	-	-	-	-	2,293
Transfer from/(to) reserves	-	-	9,235	-	-	-	-	(9,235)	-	-
<b>At June 30, 2012 (unaudited)</b>	<b>7,871</b>	<b>350,052</b>	<b>67,551</b>	<b>59,906</b>	<b>5,728</b>	<b>62,825</b>	<b>2,727</b>	<b>777,676</b>	<b>-</b>	<b>1,334,336</b>
At January 1, 2013	7,871	340,206*	78,139*	59,906*	7,440*	62,825*	(1,163)*	928,083*	9,846	1,493,153
Profit for the period	-	-	-	-	-	-	-	129,135	-	129,135
Other comprehensive income for the period:										
Exchange difference on foreign currency translation	-	-	-	-	-	-	1,986	-	-	1,986
Total comprehensive income for the period	-	-	-	-	-	-	1,986	129,135	-	131,121
Equity-settled share option arrangements (note 15)	-	-	-	-	1,056	-	-	-	-	1,056
Transfer from/(to) reserves	-	-	9,405	-	-	-	-	(9,405)	-	-
Final 2012 dividends declared (note 16)	-	-	-	-	-	-	-	-	(9,846)	(9,846)
<b>At June 30, 2013 (unaudited)</b>	<b>7,871</b>	<b>340,206*</b>	<b>87,544*</b>	<b>59,906*</b>	<b>8,496*</b>	<b>62,825*</b>	<b>823*</b>	<b>1,047,813*</b>	<b>-</b>	<b>1,615,484</b>

\* These reserves accounts comprise the consolidated reserves of RMB1,607,613,000 (December 31, 2012: RMB1,475,436,000) in the consolidated statement of financial position.

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2013

	For the six months ended June 30,	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Net cash flows from operating activities	18,008	315,160
Net cash flows used in investing activities	(186,462)	(8,612)
Net cash flows from/(used in) financing activities	(17,536)	48,999
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(185,990)</b>	355,547
Cash and cash equivalents at beginning of period	795,823	550,430
Effect of foreign exchange rate changes, net	543	653
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>610,376</b>	906,630
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	328,394	856,630
Time deposits with original maturity of less than three months	281,982	50,000
	<b>610,376</b>	906,630



# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 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 six months ended June 30, 2013 (the “Period”), the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the production and sale of fiber optic patch cords and other accessories. There were no significant changes in the nature of the Group’s principal activities during the Period.

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

## 2.1 BASIS OF PREPARATION

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

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended December 31, 2012.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2012, except for the adoption of new standards and amendments issued by the International Accounting Standards Board that are mandatory for annual periods beginning on or after July 1, 2012 and January 1, 2013. The adoption of these new standards and amendments has had no significant financial effect on the financial position or performance of the Group.

## 3. REVENUE AND OPERATING SEGMENT INFORMATION

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

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

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

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

### Entity-wide disclosures

#### Information about products

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

	For the six months ended June 30,			
	2013		2012	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Fiber optic patch cords	606,890	78.2	702,730	98.3
Connection and distribution product series	120,644	15.6	3,765	0.5
Equipment room accessories	48,105	6.2	8,095	1.2
	<b>775,639</b>	<b>100.0</b>	714,590	100.0

### Geographical information

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

	For the six months ended June 30,	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Domestic*:		
— Mainland China	696,401	660,028
Overseas:		
— Ireland	20,231	20,437
— New Zealand	55,169	34,125
— Others	3,838	—
	<b>79,238</b>	54,562
	<b>775,639</b>	714,590

\* 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 a property in Hong Kong, all of the Group's non-current assets were located in Mainland China.

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

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

### Entity-wide disclosures *(continued)*

#### Information about major customers

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

	For the six months ended June 30,	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	225,688	277,142
Customer B	93,353	96,971
Customer C	91,101	118,654

## 4. OTHER INCOME

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

	For the six months ended June 30,	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants*	1,100	–
Deferred income released	490	490
Bank interest income	3,498	1,200
Rental income	854	300
Others	171	35
Total other income	6,113	2,025

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

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 5. PROFIT BEFORE TAX

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

	Notes	For the six months ended June 30,	
		2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Cost of inventories sold		570,068	528,408
Employee benefit expense (including directors' remuneration):			
Wages and salaries		10,988	7,248
Equity-settled share option expense	15	1,056	2,293
Pension scheme contributions			
— Defined contribution fund		1,314	884
Total employee benefit expense		13,358	10,425
Interest on bank loans		17,539	20,102
Bank loan guarantee fees		—	385
Finance costs		17,539	20,487
Auditors' remuneration		1,000	1,000
Depreciation of items of property, plant and equipment	8	36,053	27,188
Amortization of prepaid land lease payments	8	309	309
Operating lease rental in respect of building		594	335
Loss on disposal of items of property, plant and equipment		2,977	—
Research and development costs		302	2,700

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 6. INCOME TAX

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

	For the six months ended June 30,	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Mainland China		
Charge for the period	25,748	21,739
Deferred	1,313	1,551
Total tax charge for the period	27,061	23,290

Notes:

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

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

Pursuant to the resolution of the board of directors of Sifang Telecom dated July 25, 2013, Sifang Telecom will distribute dividends of not more than 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund) in respect of the Period to the Company and the remaining distributable profit will be used for the business development of Sifang Telecom and will not be distributed to the Company. Therefore, a deferred tax liability of RMB2,116,000 (June 30, 2012: RMB2,078,000), representing 10% withholding tax on 25% of Sifang Telecom's distributable profit, has been provided for during the Period.

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,217,300,000 (six months ended June 30, 2012: 1,217,300,000) in issue during the Period.

No adjustment has been made to the basic earnings per share amounts presented for the two periods ended June 30, 2012 and 2013 in respect of a dilution as the exercise price of the Company's outstanding share options was higher than the average market price for the Company's shares during each of the six months ended June 30, 2012 and 2013.

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

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

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

	Property, plant and equipment <i>RMB'000</i> <i>(note (a))</i>	Prepaid land lease payments <i>RMB'000</i> <i>(note (b))</i>
Carrying amount at January 1, 2013	777,295	25,448
Additions	160,025	–
Depreciation/amortization charged for the Period <i>(note 5)</i>	(36,053)	(309)
Disposal during the Period	(15,838)	–
Carrying amount at June 30, 2013 (unaudited)	885,429	25,139

Notes:

- (a) At the end of the reporting period, certain of the Group's property, plant and equipment with a net carrying amount of RMB239,720,000 (December 31, 2012: RMB258,111,000) have been pledged to secure the Group's interest-bearing bank loans (note 14).
- (b) As at June 30, 2013, prepaid land lease payments with a net book amount of RMB15,204,000 (December 31, 2012: RMB21,482,000) have been pledged to banks for bank loans granted to the Group (note 14).

## 9. ENTRUSTED LOAN RECEIVABLES

On June 21, 2013 and June 24, 2013, the Group placed entrusted loans through Agricultural Bank of China to Gaocheng Simingshengguang Communication Equipment Ltd. ("Simingshengguang"), an independent third party with the respective principal amounts of RMB30,000,000 and RMB20,000,000, which bear interest rates at 10% above the benchmark lending rate promulgated by the People's Bank of China. The entrusted loan receivables are due for maturity in June 2016.

As at June 30, 2013, the Group hold trade payables due to Simingshengguang with an aggregate amount of RMB44,639,000 (December 31, 2012: N/A) (note 12) as collateral over the entrusted loan receivables. The Directors are of the opinion that the entrusted loan receivables are neither past due nor impaired.

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 10. TRADE RECEIVABLES

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Trade receivables	918,713	843,440
Impairment	-	-
	<b>918,713</b>	843,440

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

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

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Within 1 month	221,468	147,673
1 to 3 months	369,834	249,938
3 to 6 months	198,236	310,437
6 to 12 months	127,601	123,793
12 to 16 months	1,321	11,015
Over 16 months	253	584
	<b>918,713</b>	843,440

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

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Neither past due nor impaired	776,045	831,841
Past due but not impaired		
Less than 1 month past due	84,345	10,395
Over 1 month but within 3 months past due	57,425	611
Over 3 months past due	898	593
	<b>918,713</b>	843,440

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 10. TRADE RECEIVABLES (continued)

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

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable.

As at June 30, 2013, certain trade receivables with an aggregate amount of RMB105,530,000 (December 31, 2012: RMB81,869,000) have been pledged to secure the Group's interest-bearing bank loans (note 14).

At the end of the reporting period, trade receivables of the Group denominated in US\$ amounted to RMB109,393,000 (December 31, 2012: RMB81,869,000).

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Prepayments for purchase of raw materials	2,302	23,927
Prepaid land lease payments to be amortized within one year	619	619
Other receivables	10,038	1,258
	<b>12,959</b>	25,804

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.

## 12. TRADE AND NOTES PAYABLES

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Trade payables	145,093	184,145
Notes payable	8,289	5,808
	<b>153,382</b>	189,953

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 12. TRADE AND NOTES PAYABLES (continued)

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

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Within 3 months	138,615	118,569
3 to 6 months	10,750	4,419
6 months to 1 year	2,105	59,795
Over 1 year	1,912	7,170
	<b>153,382</b>	189,953

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. As at June 30, 2013, trade payables with an aggregate amount of RMB44,639,000 (December 31, 2012: N/A) were held as collateral for the entrusted loan receivables (note 9).

Notes payable are interest-free with terms of maturity of within 180 days. As at June 30, 2013, notes payable are secured by the pledge of cash at banks of RMB4,848,000 (December 31, 2012: RMB3,868,000).

## 13. OTHER PAYABLES AND ACCRUALS

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
<i>Payables related to:</i>		
Taxes and surcharges	296,941	286,257
Payroll and welfare	11,752	9,301
Construction of property, plant and equipment	29,911	47,393
Professional fees	1,314	1,314
Advance from government agencies	1,500	1,500
Others	645	959
	<b>342,063</b>	346,724
Accruals	8,890	6,613
	<b>350,953</b>	353,337

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

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 14. INTEREST-BEARING BANK LOANS

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
<i>Bank loans:</i>		
Secured	401,740	410,284
<i>Bank loans repayable:</i>		
Within one year	349,669	410,284
In the second year	50,239	–
In the third to fifth years, inclusive	717	–
Beyond five years	1,115	–
	401,740	410,284
Balances classified as current liabilities	349,669	410,284
Balances classified as non-current liabilities	52,071	–
The bank loans bear interest at fixed rates per annum in the range of:	2.15% to 7.80%	4.81% to 8.20%

As at June 30, 2013, except for the bank loans amounting to RMB49,430,000 with an interest rate of 4.77% per annum (December 31, 2012: RMB50,284,000) and the bank loans amounting to RMB2,310,000 with an interest rate of 2.15% per annum (December 31, 2012: Nil) which are denominated in United States Dollars (“US\$”) and Hong Kong Dollars (“HK\$”), respectively, all bank loans are denominated in RMB.

The above bank loans were secured as follows:

	Net book amount	
	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
<i>Secured by:</i>		
Trade receivables (note 10)	105,530	81,869
Property, plant and equipment (note 8)	239,720	258,111
Prepaid land lease payments (note 8)	15,204	21,482

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 15. 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\$1.20 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.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In addition, the Company adopted a new share option scheme (the "New Option Scheme") which has been 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.

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 15. SHARE OPTION SCHEMES (continued)

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

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

The exercise price and exercise periods of the share options under the Old Option Scheme outstanding as at June 30, 2013 are as follows:

Exercise price HK\$ per share*	Number of options '000	Exercise period
1.20	3,600	January 14, 2012 to July 11, 2021
1.20	3,600	July 14, 2012 to July 11, 2021
1.20	3,600	January 14, 2013 to July 11, 2021
1.20	3,600	July 14, 2013 to July 11, 2021
1.20	3,600	January 14, 2014 to July 11, 2021
1.20	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\$1,302,000 (approximately RMB1,056,000) during the Period (six months ended June 30, 2012: HK\$2,828,000, approximately RMB2,293,000).

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.

As at June 30, 2013, the Company had 21,600,000 share options outstanding under the Old Option Scheme, of which 10,800,000 share options are exercisable with an exercise price of HK\$1.20 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).

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 15. SHARE OPTION SCHEMES (continued)

Subsequent to the end of the reporting period, on July 2, 2013, a total of 76,400,000 share options were granted under the New Option Scheme to certain of the eligible participants of the Group in respect of their services to the Group in the forthcoming years. The price of the Company's shares at the date of grant was HK\$1.00 per share. The vesting period and the exercise price of the share options mentioned above are included in note 19 to the financial statements.

At the date of approval of the interim condensed financial information, the Company had a total of 98,000,000 share options outstanding under the share option schemes which represented approximately 8.05% of the Company's shares in issue as at that date.

## 16. DIVIDENDS

### (a) Dividend attributable to the Period

Pursuant to the resolutions of the board of the Directors dated on August 28, 2013, the Directors resolved not to pay an interim dividend to shareholders for the six months ended June 30, 2013 (six months ended June 30, 2012: Nil).

### (b) Dividends attributable to the previous financial year, declared and paid during the Period:

	RMB'000
Final dividend in respect of the financial year ended December 31, 2012 of HK1 cent per ordinary share	
Declared during the Period	9,846
Paid during the Period	(9,846)
	—

## 17. COMMITMENTS

### (a) Capital commitments

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

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Contracted, but not provided for: — Property, plant and machinery	17,840	31,319

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 17. COMMITMENTS (continued)

### (b) Operating lease arrangements — As lessor

As lessor, the Group leases certain part of its office buildings under operating lease arrangements with lease terms ranging from one to five years. As at June 30, 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Within one year	926	856
In the second to fifth years, inclusive	1,423	862
After five years	238	248
	<b>2,587</b>	1,966

### (c) Operating lease arrangements — As lessee

The Group leases certain of its office building under operating lease arrangements for terms of three years. As at June 30, 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	June 30, 2013 RMB'000 (Unaudited)	December 31, 2012 RMB'000
Within one year	1,711	1,506
In the second to fifth years, inclusive	3,138	4,065
	<b>4,849</b>	5,571

# Notes to Interim Condensed Financial Information

For the six months ended June 30, 2013

## 18. RELATED PARTY TRANSACTIONS

- (a) During the six months ended June 30, 2012 and 2013, the Group had no significant transactions with its related parties.
- (b) Compensation of key management personnel of the Group:

	For the six months ended June 30,	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Basic salaries and other benefits	2,483	2,177
Equity-settled share option expense	1,056	2,293
Pension scheme contributions	77	54
	<b>3,616</b>	4,524

## 19. EVENT AFTER THE REPORTING PERIOD

On July 2, 2013, a total of 76,400,000 share options (the "Share Options") carrying the rights to subscribe for up to a total of 76,400,000 ordinary shares of US\$0.001 each in the share capital of the Company were granted by the Company to certain grantees under the New Option Scheme. The grant of the Share Options had been approved by all independent non-executive directors of the Company on July 2, 2013. Among the Share Options granted above, 27,900,000 share options were granted to executive directors and independent non-executive directors of the Company.

Subject to the rules of the New Option Scheme, options granted will vest over three years or at the rate of one-sixth of the options granted every six months from the date which the grantees may exercise options granted to them with an exercise price of HK\$1.00 per share.

Particulars of the grant of Share Options were set out in the Company's announcement dated July 2, 2013.

The fair value of the share options as at the date of grant was HK\$33,661,000 (equivalent to approximately RMB26,806,000) or HK\$0.44 each (equivalent to approximately RMB0.35 each), of which the Group will recognize a share option expense of HK\$13,139,000 (equivalent to approximately RMB10,464,000) for the year ending December 31, 2013.

## 20. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorized for issue by the board of directors on August 28, 2013.