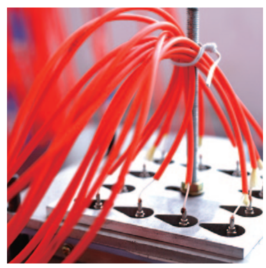
CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3777



2013 Annual Report

Contents

Financial Highlights

For the year ended December 31, 2013, operating results of the Group were as follows:

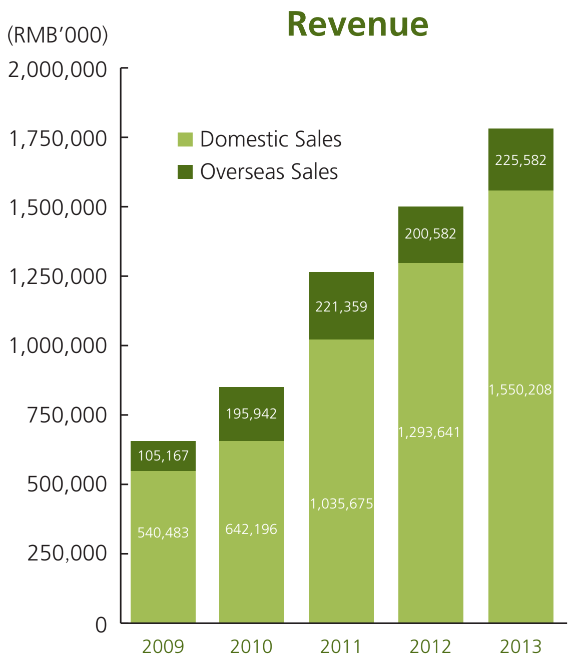
— Revenue rose 18.8% to RMB1,775,790,000;

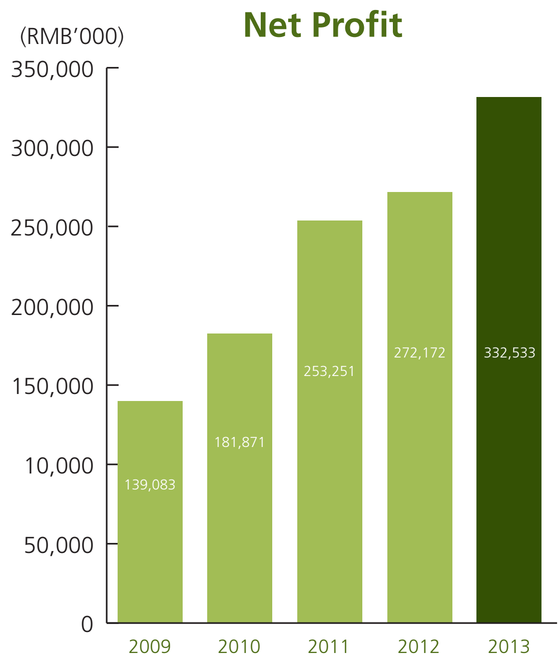
— Gross profit margin went up from 28.5% to 29.0%;

— Profit for the year increased 22.2% to RMB332,533,000;

— Basic and diluted earnings per share for the year increased 16.1% from RMB22.4 cents to RMB26.0 cents;

— The Board recommended a final dividend of HK5 cents per share.





FIVE YEAR FINANCIAL SUMMARY

	Year ended December 31				
	2009	2010	2011	2012	**2013**
Net cash flows from operating activities (RMB'000)	11,836	93,445	298,925	379,709	**5,148**
Gross Profit Margins					
Fiber Optic Patch Cords (Domestic)	26.8%	25.3%	26.2%	24.2%	**26.5%**
Fiber Optic Patch Cords (Overseas)	52.8%	53.9%	57.9%	56.4%	**57.8%**
Overall	31.0%	32.0%	31.8%	28.5%	**29.0%**
Effective Tax Rate					
Effective Tax Rate	12.7%	14.2%	15.2%	17.1%	**17.2%**
Net Profit Margin					
Net Profit Margin	21.5%	21.7%	20.1%	18.2%	**18.7%**
Financial Position					
Total Assets (RMB'000)	948,421	1,266,487	2,198,299	2,564,890	**3,467,655**
Total Liabilities (RMB'000)	400,302	589,058	978,289	1,071,737	**1,440,138**
Net Assets (RMB'000)	548,119	677,429	1,220,010	1,493,153	**2,027,517**
Gearing Ratio	34%	40%	24%	15%	**22%**
Working Capital Cycles					
Trade Receivable Turnover Days	135	207	191	195	**229**
Trade Payables Turnover Days	32	27	27	50	**68**
Inventory Turnover Days	8	11	11	11	**9**
Return on Equity	25.4%	26.8%	20.8%	18.2%	**16.4%**
Operating efficiency (percentage of revenue)					
Selling and distribution expenses	0.8%	0.9%	0.7%	0.4%	**0.6%**
Administrative expenses	4.1%	4.1%	5.4%	4.0%	**4.3%**
Finance costs	1.7%	1.9%	2.2%	2.5%	**2.0%**

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 telecommunications 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 facility is located in Shijiazhuang, Hebei Province, with annual maximum production capacity of 26.6 million sets of fiber optic patch cords and 260,000 km of soft optical cables.

The Group currently targets the fiber optic patch cord and passive optical equipment 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 Australia, New Zealand, Ireland and UK.

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
Dr. Lui Pan

AUDIT COMMITTEE

Dr. Ma Kwai Yuen *(Chairman of Audit Committee)*
Mr. Shi Cuiming
Dr. 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
Dr. 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

Corporate Information

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

PRINCIPAL BANKERS

Bank of Communications, Shijiazhuang Branch
Agricultural Bank of China, Gaocheng Liangcun Development Zone Branch
China Merchants Bank, Shijiazhuang 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
1,457,300,000 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
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Chairman's Statement

Dear Shareholders,

The Group made great progress to grow our business in 2013 with revenue and profit surged 18.8% and 22.2% respectively. To further enhance shareholder value, we recommended a final dividend amounting to 17.2% of earnings and maintain our dividend policy payout ratio of not less than 10% of earnings per share.

During the year, the telecom industry was blessed with a number of favorable government policies including the 4G licenses and "Broadband China" — a national strategic plan stipulating the country's strategic objectives all the way to the year of 2020 on broadband and mobile coverages. To cope with opportunities arisen from 4G and Broadband China, the Group has initiated a number of strategic moves which will pave our way of growth in the next five years.

First, we restarted our marketing effort on connection and distribution products, and equipment room accessories with related sales growth of 6253.9% and 977.8% respectively in 2013. We also accelerated our vertical integration by expanding annual production capacity of soft optical cable from 130,000 km to 260,000 km. We raised funds from the capital market to build high precision ceramic ferrules polishing workshops to be ready for volume production in 2015. At the time of writing, we had also formed a joint venture with a renowned expert in optical fiber and sensing technologies to set up a high tech enterprise capable to produce telecommunication use optical fibers and specialty optical fibers for telecommunication and non-telecommunication purposes in 2015. All of these would turn into margin expansion and more high end new products.

During 2013, we had added two new overseas markets, namely UK and Australia and we will continue to pursue overseas expansion with a goal to open up one country per year. Currently, our products are undergoing field trial by potential customers in several countries.

Looking forward, the Group will continue its pursuit on margin expansion, launching new products and entering into more overseas markets. At the same time, we will also carry out our new business plan to become a leading provider of optical passive equipment and specialty optical fibers.

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 for the Group. 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 26, 2014

Management Discussion and Analysis

OVERVIEW

During 2013, the Group's revenue rose 18.8% to RMB1,775,790,000, mainly driven by overseas sales growth of 12.5% of fiber optic patch cords, and increases in domestic sales of connection and distribution products and equipment room accessories by 6253.9% and 977.8% respectively.

Basic and diluted earnings per share for 2013 went up 16.1% from RMB22.4 cents to RMB26.0 cents as a result of surge in revenue and improvements on both gross and net profit margins.

REVENUE BY PRODUCT CATEGORY

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

	Year ended December 31,		
	2013	2012	Growth
	RMB'000	*RMB'000*	
Fiber optic patch cords	**1,274,655**	1,476,511	(13.7%)
Connection & distribution products	**373,610**	5,880	6253.9%
Equipment room accessories	**127,525**	11,832	977.8%
	1,775,790	1,494,223	18.8%

Sales revenue of fiber optic patch cords declined primarily because of change in sales mix during the year as telecom operators re-allocated their capital spending and switched focus from fiber to the home related work to preparation and establishment of 4G mobile network which licenses were not issued until December 2013. Please refer to "Sales Volume and Average Selling Price" for more detail discussion.

The increases in connection and distribution products and equipment room accessories were mainly driven by the Group's action plan to broaden product portfolio by diversifying related sales and participated a number of tenders of telecom operators on passive equipment of optical digital network. Among them were mainly optical distribution frames ("ODF") and fiber access terminals ("FAT"). ODF are used to connect and schedule optical fibers and optical cables applicable to fiber intersections between an optical transmission network and optical transmission devices as well as between optical cables in an access networks. Located at the user access point, FAT is used to connect and distribute optical cables with optical splitters. ODF are bundled and pre-installed with fiber optic patch cords produced by the Group. As telecom operators continue to expand its fiber optic networks, the Group expects that the demand of ODF and FAT and related passive optical equipment will continue to grow.

Riding on the strong demand of fiber optic patch cord and other passive optical equipment, the Group will continue to expand its product portfolio with advanced fiber optic connectivity technologies for telecom and non-telecom customers.

DOMESTIC AND OVERSEAS SALES

Sales to domestic and overseas customers accounted for 87.3% and 12.7% respectively in 2013 as compared to 86.6% and 13.4% in 2012.

The following table shows the breakdown of sales of the Group to domestic and overseas markets:

	Year ended December 31,		
	2013	2012	Growth
	RMB'000	*RMB'000*	
Domestic sales — fiber optic patch cords	**1,049,073**	1,275,929	(17.8%)
Domestic sales — other products	**501,135**	17,712	2729.4%
	1,550,208	1,293,641	19.8%
Overseas sales — fiber optic patch cords:			
— New Zealand	**165,713**	136,061	21.8%
— Ireland	**26,454**	64,521	(59.0%)
— Australia	**20,903**	–	new
— United Kingdom	**12,507**	–	new
— Others	**5**	–	new
	225,582	200,582	12.5%
	1,775,790	1,494,223	18.8%

Please refer to "Sales Volume and Average Selling Price" for detail discussion on domestic sales of fiber optic patch cords.

Domestic sales on other products were mainly connection and distribution products and equipment room accessories. Please refer to "Revenue by Product Category" for further discussion.

Overseas sales of fiber optic patch cords rose from increased orders from New Zealand and new customers in Australia and United Kingdom. As Australia and New Zealand continue to invest their capital spending on government initiated "National Broadband Network" and "Ultra-Fast Broadband Initiative", the Group anticipates that overseas sales will continue to grow.

SALES VOLUME AND AVERAGE SELLING PRICE

The following summaries sales volume and average selling price of our fiber optic patch cords for 2013 and 2012:

	2013		2012	
	Sales volume (Sets)	**Average Unit Price**	Sales volume (Sets)	Average Unit Price
Fiber optic patch cords — domestic	**21,424,923**	**RMB49.0**	18,456,102	RMB69.1
Fiber optic patch cords — overseas	**1,199,199**	**US$30.7**	740,000	US$43.6
	22,624,122		19,196,102	

During the year, strong demand of fiber optic patch cords continued and sale volume of domestic and overseas markets increased by 16.1% and 62.1% respectively. However, changes in sales mix caused their average selling prices to edge lower and thereby leading to a decline in domestic sales revenue of fiber optic patch cords.

The Group's pricing on 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.

During 2013, our customers had re-allocated a sizable portion of their capital spendings from fiber to the home related projects to the preparation and establishment of new 4G mobile network. As a result, they had ordered a smaller proportion of lengthy fiber optic patch cords which are mostly used for fiber to the home installations. Shorter average length of patch cords resulted in lower selling prices of patch cords and therefore revenue generated from domestic sales of fiber optic patch cords declined 17.8%, despite an increase in 16.1% of quantity of fiber optic patch cords sold to domestic market.

Sales mix of 2013 comprised not only fiber optic patch cords with shorter average length but also a smaller proportion of patch cords with multiple connectors (also known as bundle patch cords). 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 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. Bundle patch cords accounted for 24.6% of total domestic sales of patch cords in 2013 as compared to 44.6% of last year.

Average selling prices of bundled and non-bundled patch cords sold to the domestic market were RMB134.0 and RMB40.6 per set as compared to RMB134.0 and RMB49.7 for the fiscal year 2013 and 2012 respectively.

Overseas sales in 2012 consisted of only two models priced at USD55.0, USD13.0 per set respectively and the weighted average selling price for that year was calculated USD43.6. During 2013, the Group exported more than 35 models of fiber optic patch cords to overseas customers with selling prices ranging from USD11.0 to USD55.0 and the weighted average selling price among these 35 models was USD30.7.

PRODUCTION CAPACITY

The Group has adopted new production know-how to shorten lead time of certain key manufacturing processes which are able to further boost the production capacity of fiber option patch cords to 19,000,000 sets per annum based on 5 days work week and 26,600,000 sets per annum based on seven days work week at the end of 2013.

The Group had constructed 10 additional soft optical cable production lines in 2013. The total of 20 production lines enable the Group to increase annual capacity from 130,000 km to 260,000 km of soft optical cable based on 5 days workweek, 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 29.0% as compared to 28.5% last year. The higher overall gross profit margin was attributable to the result of our effort on vertical integration.

The following table sets forth gross profit margins from the Group's overall sales and from domestic and overseas sales of our products for 2013 and 2012:

	Year ended December 31,	
	2013 Gross profit margin	2012 Gross profit margin
Overall sales	**29.0%**	28.5%
Fiber optic patch cords — domestic sales	**26.5%**	24.2%
Fiber optic patch cords — overseas sales	**57.8%**	56.4%
Connection and distribution products	**22.2%**	17.0%
Equipment room accessories	**17.9%**	12.3%

The Group will continue to implement our vertical integration strategy, in particular the in-house production of key raw material and components including soft optical cables and ceramic ferrules. During 2013, approximately 118,500 km of soft optical cables were made in-house and a maximum of 260,000 km of annual capacity can be ready in 2014. In-house production of ceramic ferrules is scheduled to commence in 2015. These vertical integration initiatives will allow the Group to expand its gross profit margin continuously in the next three years.

Raw material, depreciation and wages accounted for 94.6%, 4.3%, 1.1% of costs of production respectively as compared to 95.5%, 4.1% and 0.4% in 2012.

OTHER INCOME

During 2013, other income went up by 63.4% to RMB11,115,000 due to the increase in interest income from bank deposits and entrusted loans.

SELLING AND DISTRIBUTION COSTS

During 2013, selling and distribution costs of the Group increased by 58.4% to RMB10,537,000.

Selling and distribution costs primarily consisted of transportation fees in connection with our sales, wages 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 mainly due to the increase in transportation fees and travelling related expenses.

Selling and distribution costs were 0.6% and 0.4% of revenue for the year ended December 31, 2013 and 2012 respectively.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 25.3% to RMB75,816,000 in 2013.

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 share option expenses.

Wages and salaries increased from RMB17,532,000 to RMB25,528,000 during 2013 mainly due to the booking of share option expenses of RMB12,165,000 as a result of granting share options to several key management personnel during the year (RMB4,005,000 for the year of 2012), in addition to the increases in headcounts and staff remuneration .

Research and development costs were RMB15,186,000 and RMB4,480,000 for the year 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 costs rather than from depreciation of property, plant and equipment not related to production commencing 2013 (see the following paragraph). The Group continues to dedicate considerable efforts and resources to research and development to strength new product pipeline, to suit specific needs of our customers.

Depreciation of property, plant and equipment not related to production went down to RMB5,997,000 from RMB16,248,000 for the year as depreciation of machinery and equipment used for research and development was being grouped as research and development cost commencing 2013.

Administrative expenses accounted for 4.3% and 4.0% of total revenue respectively for the year of 2013 and 2012.

FINANCE COSTS

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

Finance costs decreased by 7.5% to RMB34,888,000 as compared to 2012. Toward the end of 2013, the Group obtained a loan facility of USD20,000,000 from a commercial bank in Hong Kong to repay borrowings denominated in RMB. The effective interest rate of such USD denominated loan is significantly lower than those borrowed in RMB and hence reducing our finances costs. In addition, borrowing in USD can serve as a natural hedge against currency risk on receivables from overseas sales. A total of USD10,000,000 and USD10,000,000 from this loan facility were drawn in November 2013 and January 2014 respectively and both are due by installment in the next three years.

The effective interest rates of our bank loans per annum were ranging from 2.2% to 8.2% and 4.8% to 8.2% as of December 31, 2013 and 2012 respectively.

For the year of 2013 and 2012, finance costs accounted for 2.0% and 2.5% of total revenue respectively.

INCOME TAX EXPENSES

Income tax expenses increased by 22.8% to RMB68,972,000 in 2013. The increase was in line with the increase in profit during the year. The effective tax rate in 2013 was 17.2% as compared to 17.1% last year.

Income tax expenses were provided mainly from the Company's subsidiary, Hebei Sifang Telecommunication Equipment Co., Ltd. ("Sifang Telecom") which is subject to preferential corporate income tax rate of 15.0% as a high and new technology enterprise and the accrual of dividend withholding tax at 10.0% on not more than 25.0% of distributable profit of Sifang Telecom for 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 2013 and 2012.

EARNINGS PER SHARE

The Group completed a placing of 240,000,000 of new shares on September 30, 2013 ("Placing"). The total number of shares outstanding as of January 1, 2013 was 1,217,300,000. Subsequent to the completion of Placing the total number of shares issued and outstanding became 1,457,300,000 shares as at December 31, 2013.

Basic and diluted earnings per share for 2013 calculated based on weighted average number of ordinary shares of 1,278,450,685 in issue were RMB26.0 cents, an increase of 16.1% compared to RMB22.4 cents based on weighted average number of ordinary shares of 1,217,300,000 of last year.

CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB283,936,000 for the year ended December 31, 2013, which were mostly related to upgrade factory buildings and production facilities, purchasing of equipments and machinery to expand production capacity, and construction of staff quarters and other facilities. Capital expenditures were primarily funded by net cash generated from operations and bank borrowings.

For 2014, the Group expects to earmark capital expenditures of roughly RMB497,500,000 to acquire production facilities of ceramic ferrules, establish relevant facilities at the Shanghai joint venture, and other projects related to enhance productivity and production capacity. These capital expenditures will be funded by proceeds from placement of new shares in September 2013 as well as cash generated from operations and bank financing.

PROPOSED FINAL DIVIDEND

The Board has recommended a final dividend of HK5 cents (2012: HK1 cent) per share to be paid on June 19, 2014, to the shareholders whose names appear on the register of members of the Company on June 6, 2014. The proposed final dividend will be voted by shareholders at the annual general meeting (the "AGM") to be held on May 29, 2014.

DIVIDEND POLICY

The Group adopted a dividend policy to declare dividend not less than 10% of earnings per share to be distributed commencing in the year of 2014.

CAPITAL STRUCTURE

There was no change on capital structure during 2013 except borrowings from banks increased from RMB410,284,000 to RMB569,478,000 and the placement of 240,000,000 of new shares at HK$1.08 per share on September 30, 2013.

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, 2013 and 2012 were 22% and 15% respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2013, cash and bank balances of the Group amounted to RMB837,715,000 comprising of RMB809,016,000 and others being equivalent to RMB1,221,000 and RMB27,478,000 denominated in HK dollars and US dollars respectively.

During 2013, we financed our operations through net cash generated from operating activities, bank borrowings and proceeds from the Placing.

Current assets net of current liabilities, was RMB1,113,218,000 as of December 31, 2013. The Group had RMB188,880,000 of long term liabilities consisted mainly interest bearing bank loans.

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,	
	2013	2012
	RMB'000	*RMB'000*
Net cash flows from operating activities	**5,148**	379,709
Net cash flows used in investing activities	**(383,029)**	(44,474)
Net cash flows from/(used in) in financing activities	**352,249**	(86,934)
Net increase/(decrease) in cash and cash equivalents	**(25,632)**	248,301

Net cash flows from operating activities for the year 2013 was primarily generated from profit adjusted after non-cash expenses for the year amounted to RMB518,926,000 offset by the increase in trade receivables of RMB540,782,000 as a result of sales growth toward the end of the year, in addition to delay of completion on certain telecom projects of some customers and increase in prepayment for raw material.

Net cash flows used in investing activities for the year 2013 was primarily related to payments for capital expenditure of RMB288,733,000 and increase in pledged bank balance of RMB64,588,000 and RMB50,000,000 of entrusted loans granted.

Net cash inflows from financing activities for the year 2013 was primarily derived from proceeds of RMB205,520,000 from the Placing in September 2013, and increase of RMB160,703,000 in bank borrowings.

TRADE RECEIVABLES

Trade receivable balances increased by 63.8% to RMB1,381,765,000 as at December 31, 2013. The increase in trade receivables was due to the increase of 18.8% of total revenue and in particular increase of 68.5% of revenue for the month of December 2013, in addition to delay of completion of certain telecom projects of some customers.

Trade receivable turnover days were 229 days and 195 days for the year ended December 31, 2013 and 2012.

There were no bad debt provisions made on trade receivables for the years ended December 31, 2013 and 2012.

INVENTORIES

Inventories as at December 31, 2013 amounted to RMB28,457,000 as compared to RMB36,703,000 as at December 31, 2012.

Inventory turnover days were 9 days and 11 days for the years ended December 31, 2013 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.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Increase in balance of prepayments, deposits and other receivables by RMB90,735,000 was mainly due to the opportunity to obtain favorable purchase prices of certain raw material and the need to secure stable supply from certain vendors owing to bank system tightening toward the end of year.

ENTRUSTED LOAN RECEIVABLES

The Group engaged Agricultural Bank of China to act as lending agent on 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 of 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 support this local supplier as a strategic partner of the Group.

As at December 31, 2013, the Group held trade payables due to this supplier with an aggregate amount of RMB58,409,000.

Please refer to Note 16 to the audit consolidated financial statement for more details.

TRADE AND NOTES PAYABLES

Trade and notes payables as at December 31, 2013 was RMB279,324,000 as compared to RMB189,953,000 as at December 31, 2012. The increase in trade and notes payables was primarily due to the increase in volume of raw materials procured to cater for large amount of orders received toward the end of 2013.

Trade and notes payables turnover days were 68 days and 50 days for the years ended December 31, 2013 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, 2013, our total bank loans amounted to RMB569,478,000 (2012: RMB410,284,000). A total of RMB129,478,000 equivalent of bank loans was denominated in U.S. dollars (2012: RMB50,284,000).

Bank loans of RMB515,325,000 (2012: RMB410,284,000) were secured by the pledge of property, plant and equipment with a net book amount of RMB500,305,000 (2012: RMB258,111,000), the pledge of prepaid land lease payments with a net book amount of RMB20,909,000 (2012: RMB21,482,000) and RMB178,864,000 (2012: RMB81,869,000) were pledged by trade receivcables as of December 31, 2013. The Group has to comply with certain restrictive financial covenants for bank loan denominated in U.S. dollars.

The effective interest rates of our bank loans per annum were 2.2% to 8.2% and 4.8% to 8.2% as of December 31, 2013 and December 31, 2012 respectively.

Please refer to note 24 to the audited financial statements for more detail of our bank loans as of December 31, 2013.

OTHER PAYABLES AND ACCRUALS

Other payables and accruals balance of RMB432,875,000 consists primarily of taxes payable other than income tax, and payable to contractors for construction of facilities and purchases of equipment. The increase in balance was due to the increase in value-added tax payable.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at December 31, 2013 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 2013. 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, 2013, except for the formation of joint venture as described on page 19 and the capital expenditures as mentioned on page 14 of this report.

CHARGES ON ASSETS

As of December 31, 2013, the Group had pledged RMB700,078,000 (December 31, 2012: RMB361,462,000) of our Group's assets in order to secure banking facilities or bank loans, which were used to finance daily business operation.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Substantially all of the Group's business transactions and liabilities are denominated in Renminbi, 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, 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 significant related party transactions during 2013 and 2012.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As of December 31, 2013, the Group did not have any off-statement of financial position arrangements.

EMPLOYEES AND STAFF COSTS

As at December 31, 2013, the Group had 769 employees (2012: 405 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.

FORMATION OF JOINT VENTURE

In early 2014, Sifang Telecom together with Professor He Zuyuan ("Professor He") formed a joint venture — Shanghai Net Miles Fiber Optic Technology Co., Ltd. (上海南明光纖技術有限公司). The registered capital of Net Miles Fiber Optic totals RMB10,000,000 of which RMB7,000,000 is from Sifang Telecom and RMB3,000,000 from Professor He, who is an internationally renowned expert in fiber optic sensing and specialty optical fiber technologies and an inventor of a number of international patents.

Net Miles Fiber Optic's business scope encompasses manufacturing of fiber optic equipment and development of fiber optic related technology. Its main products are optical fibers for telecommunication as well as specialty optical fibers for non-telecommunication uses.

The joint venture will provide a number of new high-tech products for the Group and broadening the Group's customer base in both telecommunication and non-telecommunication sectors.

OUTLOOK

The "Broadband China" national strategy as announced by the Chinese government to expand broadband coverage across the nation's rural and urban areas, and the issuance of 4G licenses will certainly bring growth to our business. According to an independent market research report, China's market size for fiber optic patch cords is estimated to increase by 18.3% to RMB6.28 billion in 2014. At the same time, the Group has also initiated a number of growth strategies with primary focus on vertical integration, launching new products, and expanding domestic and overseas customer bases on both telecom and non-telecom sectors to further foster business and improve margins.

The Group is now working diligently to ramp up proportion of in-house production on major components of patch cords, ranging from full utilization of our soft optical cable production capability in 2014 to establishing of polishing workshops on ceramic ferrules in 2014 and to construction of factory building and production lines of telecom use optical fibers and specially optical fibers at the new Shanghai joint venture facilities in 2015.

The Group will continue to diversify its product pipeline on optical connection and distribution products and equipment room accessories, and pursue more strategic partnership to commercialize renowned technologies on optical transmission. The Group is also evaluating a number of acquisition opportunities aiming to tap on the market of passive optical equipment. Furthermore, the Group will strive to launch optical fiber for telecommunication purpose and specialty optical fibers for non-telecommunication purposes by year 2016.

During the year, the Group has successfully opened up new overseas markets in UK and Australia. Higher volume of shipments to these two countries can be anticipated in 2014. The Group continues to aim for potential opportunities of entering one new overseas market in developed countries 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, 2013.

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, 2013, 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

On September 18, 2013, the Company entered into an agreement to place up to 240,000,000 of its new shares to not less than six independent placees at a price of HK$1.08 per share. The gross proceeds from the placing was approximately HK$259,200,000. The net proceeds, after the deduction of the placing commission and other related expenses, was approximately HK$253,900,000. The placement was completed on September 30, 2013. The Company intends to use the net proceeds to establish production facilities for product components and as general working capital of the Group.

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

2014 Annual General Meeting

The register of members of the Company will be closed from May 26, 2014 to May 29, 2014, 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 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on May 23, 2014.

Proposed Final Dividend

The register of members of the Company will be closed from June 9, 2014 to June 12, 2014, 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 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on June 6, 2014.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhao Bing, aged 43, 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 20 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 50, 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 13 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 46, 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 13 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 48, 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. Mr. Hung is a fellow Certified Public Accountant, and a licensed Certified Public Accountant in California of the United States. 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. Mr. Hung also serves as independent non-executive director of China Shineway Pharmaceutical Group Limited (stock code 2877) and Zhongyu Gas Holdings Limited (stock code 3633), and the vice chairman of the Hong Kong Investor Relations Association and a council member of the Hong Kong Institute of Directors.

Mr. Xia Ni, aged 43, 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 20 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 74, 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 60, has been our independent non-executive director since June 3, 2011. Dr. Ma received a Doctor of Philosophy in Business Administration from Bulacan State University in May 2011. He 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 is a fellow member of the Chartered Institute of Management Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Australian Certified Practicing Accountants Australia, a member of Chartered Secretaries Australia and a senior member of Hong Kong Institute of Directors. He has over 30 years of professional experience in accounting, financial management and business consultancy. Dr. Ma is a director and principal consultant of Wellon Consultants Limited. Dr. Ma also serves as an independent non-executive director at Genvon Group Limited (stock code 2389), and PacMOS Technologies Holdings Limited (stock code 1010), chief consultant at China Aoyuan International Development Limited (stock code 3883), all of which are listed on the Main Board of the Stock Exchange. He had also been an independent non-executive director of China Shineway Pharmaceutical Group Limited from May 2008 to December 2009 and Vision Tech International Holdings Limited from March 2008 to June 2009, all are listed on the Main Board of the Stock Exchange.

Biographical Details of Directors and Senior Management

Dr. Lui Pan, aged 59, has been our independent non-executive director since June 3, 2011. Dr. Lui has approximately 33 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. Dr. 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. He had been executive director of DVN (Holdings) Limited, now known as Frontier Services Group Limited (stock code 500) from 1999 to 2012.

SENIOR MANAGEMENT

Mr. Zhang Yonglu, aged 57, 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 49, 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 12 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 56, 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 12 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 39, 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 15 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.

Dear Shareholders,

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Board of Directors (the "Board") sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business. The Board is committed to strengthening the Group's corporate governance practices and ensuring transparency and accountability of the Company's operations.

CORPORATE GOVERNANCE PRACTICES

This report describes how the Company has applied its corporate governance practices to its everyday activities. Throughout the year 2013, the Company has fully complied with the applicable code provisions in the Corporate Governance Code (the "CG Code") set out in Appendix 14 of the Listing Rules.

Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments.

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 2013 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.

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. 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, 2013 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)*
Dr. Lui Pan	*(Member of Audit Committee, Member of Remuneration Committee)*

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

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.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy ("Board Diversity Policy") on August 28, 2013 in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

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.

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 case studies on successful and failure of acquisitions, introduction to mergers and acquisitions, and experience sharing to maximize shareholder value.

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)*
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
Dr. Lui Pan	1, 2, 3, 4

Note:

1. Case studies on successful and failure of acquisitions (2 hours)
2. Introduction to mergers and acquisitions (2.5 hours)
3. Experience sharing to maximize shareholder value (2 hours)
4. Code on takeovers and megers (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 2013. 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	–	–	1/1	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	1/1	1/1
Dr. Ma Kwai Yuen *(Chairman of Audit Committee/ Chairman of Corporate Governance Committee)*	4/4	4/4	4/4	–	1/1
Dr. Lui Pan	4/4	4/4	–	1/1	–

Practice and Conduct of Meetings

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision A.2.1 stipulates that the roles of the Chairman of the Board and the Chief Executive Officer should be separate and should not be performed by the same individual.

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

The Board considered that vesting the roles of the Chief Executive Officer 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.

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, 2013 included three directors (2012: five) 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)	**2013** **Number of individuals**	2012 Number of individuals
1,000,001–2,000,000	**4**	–
Under 1,000,000	**–**	4
Total	**4**	4

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 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, 2013 to December 31, 2013. One meeting was held from January 1, 2014 up to the date of this Corporate Governance Report. These meetings were attended by all three members.

The Corporate Governance Committee had reviewed the latest amendments on Listing Rules to ensure that these amendments are implemented by the Company.

AUDIT COMMITTEE

The Company has set up an Audit Committee consisting of three members, namely Dr. Ma Kwai Yuen, Mr. Shi Cuiming and Dr. 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, 2013, 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 39 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.

5) review the Board Diversity Policy to ensure its effectiveness and making recommendations to the Board on requisite amendments.

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

REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee consisting of three members, namely Mr. Zhao Bing, Mr. Shi Cuiming and Dr. 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 Telecom 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, 2013 are set out in note 7 to the financial statements.

Please refer to the Remuneration Committee Report on page 41 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 2013, a number of strategic action plans were developed, executed, implemented by relevant executives and management to achieve these goals and objectives.

Enterprise Risk Management

Risk assessments are conducted from time to time by the Internal Audit Department of the Company's principal subsidiary, Sifang Telecom, and presented to the Chairman for review. The Company 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.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board, supported by the Chief Financial Officer and the finance department, is responsible for the preparation of the financial statements of the Group and the Company. In the preparation of financial statements, the International Financial Reporting Standards and the Hong Kong Companies Ordinance have been adopted, the appropriate accounting policies have been consistently used and applied, and reasonable judgements and estimates are properly made. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. The Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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.

During the year, the Board had conducted a review of the effectiveness of the Group's internal control systems cover material controls, including financial, operational and compliance controls and risk management functions based on reports prepared by the Group's internal audit department. In addition, the Board had also considered the adequacy of resources, staff qualifications and experience, training programs and budget of the issuer's accounting and financial reporting function.

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.

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, 2013.

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 50 and 51.

External 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, 2013 amounted to RMB3,300,000 (2012: RMB3,300,000).

	Fee paid and payable	
	2013	2012
Services rendered for the Company	***RMB***	*RMB*
Audit services	**2,300,000**	2,300,000
Other services, including the review of interim financial statements	**1,000,000**	1,000,000
Total	**3,300,000**	3,300,000

BUSINESS ETHICS

Anti-Fraud Measures

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. All directors confirmed that they have complied with the required standard set out in the Model Code throughout 2013. The interests held by individual directors in the Company's securities at December 31, 2013 are set out in the Directors' Report on page 44.

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.

PRICE-SENSITIVE INFORMATION

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

INFORMATION DISCLOSURE ON CORPORATE WEBSITE

The Company endeavours to disclose all material information about the Company to all interested parties as widely and timely as possible. The Company maintains a corporate website at (www.chinafiberoptic.com) where important information about the Company's activities and corporate matters such as annual reports and interim reports to shareholders, announcements, business development and operations, corporate governance practices and other information is available for review by shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on the Company's website (www.chinafiberoptic.com).

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The management believes that effective communication with the investment community in a timely manner through various media is essential. The Company held regular briefings, attended investor conferences and participated in roadshows to meet institutional investors and financial analysts in the PRC, Hong Kong and overseas countries to keep them abreast of the Company's business and development.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, if they have any enquiries about their Shares and dividends. The contact details of the Company are set out in the section entitled "Corporate Information" in the annual report.

The Company's AGM allows the Directors to meet and communicate with shareholders. The Company ensures that shareholders' views are communicated to the Board. The chairman of the AGM proposes separate resolutions for each issue to be considered. Members of the Audit, Remuneration and Nomination Committees and the external auditor also attended the AGM to answer questions from shareholders.

AGM proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices. The notice of AGM is distributed to all shareholders at least 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his/her power under the Articles to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Voting results are posted on the Company's website in accordance with the Listing Rules.

Shareholder(s) holding not less than one-tenth of the paid up capital of the Company can make a written requisition to the Board or the company secretary to require an extraordinary general meeting to be called pursuant to article 58 of the Articles. The written requisition shall specify the business to be transacted in the meeting, must be signed by the requisitionist and shall be deposited to the Company's address on page 5 of this annual report. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

AGM for the year ended December 31, 2012 was held on May 30, 2013. The attendance record of the Directors at the meeting is set out below:

	AGM
Executive Directors	
Mr. Zhao Bing *(Chairman of the Board)*	1/1
Mr. Meng Yuxiao	1/1
Mr. Deng Xuejun	0/1
Mr. Hung, Randy King Kuen	1/1
Mr. Xia Ni	1/1
Independent non-executive Directors	
Mr. Shi Cuiming	0/1
Dr. Ma Kwai Yuen	1/1
Dr. Lui Pan	0/1

During the year, there were no changes in any of the Company's constitutional documents.

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 26, 2014

Audit Committee Report

Dear Shareholders,

The audit committee formally met four times from January 1, 2013 to December 31, 2013, and one time from January 1, 2014 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 2014 and recommended to approve the interim and annual results of 2013.

MEMBERS OF AUDIT COMMITTEE

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

Dr. Ma Kwai Yuen
Chairman
Audit Committee

Hong Kong, March 26, 2014

Nomination Committee Report

Dear Shareholders,

The Group's Nomination Committee is responsible for review of the structure, size and composition, including the skills, knowledge and experience, of the board on a regular basis and make recommendations to the board regarding any proposed changes. It is also responsible for making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors, supervisors of the Company and senior executives and succession planning for directors in particular Executive Directors and senior executives. Majority members of the Nomination Committee are Independent Non-executive Directors. It is chaired by Mr. Shi Ciming with two other members, namely, Dr. Ma Kwai Yuen and Mr. Zhao Bing.

During the year under review, the Nomination Committee held one meeting for annual review of the current Board structure, assessment of the independence of independent non-executive directors and reviewing the Nomination Committee's procedural rules, recommended to the Board on the adoption of the Board Diversity Policy and further recommended Mr. Meng Yuxiao, Mr. Deng Xuejun and Mr. Hung, Randy King Kuen to stand for re-election by rotation by Shareholders at the 2013 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 26, 2014

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.

The Remuneration Committee held one meeting in 2013 in which resolved to review the Remuneration Committee's procedural rules, and made recommendation to the board.

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 45 to 47.

MEMBERS OF REMUNERATION COMMITTEE

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

Mr. Shi Cuiming
Chairman
Remuneration Committee

Hong Kong, March 26, 2014

Directors' Report

Dear Shareholders,

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, 2013.

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.

FINANCIAL STATEMENTS

The results of the Group for the year ended December 31, 2013, prepared in accordance with the International Financial Reporting Standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 52 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 29, 2014, the payment of a final dividend of HK$5 cents (2012: HK$1 cent) per share in respect of the year ended December 31, 2013 payable on June 20, 2014 to shareholders on the Register of Members at the close of business on June 6, 2014.

FINANCIAL SUMMARY

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

On September 30, 2013, 240,000,000 shares were issued through placing agent at a price of HK$1.08 per share.

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 26 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 55 of this annual report and note 28 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At December 31, 2013, the Company's reserves available for distribution amounted to RMB196,358,000 of which RMB57,288,000 has been proposed as a final dividend for the year.

In addition, under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company of RMB540,123,000 is available for distribution or paying dividends to Shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

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, 2013 amounted to RMB569,478,000 (2012: RMB410,284,000). Particulars of interest-bearing bank loans are set out in note 24 to the Financial Statements.

DIRECTORS

The Directors who held office during the year ended December 31, 2013 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

Independent Non-executive Directors:

Mr. Shi Cuiming
Dr. Ma Kwai Yuen
Dr. 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, Mr. Hung, Randy King Kuen and 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.

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 80 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors has an interest in any business constituting a competing business to the Company.

DIRECTORS' INTERESTS IN SHARES

As at December 31, 2013, 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, 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 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	527,561,012 Shares[(1)]	–	527,561,012	36.20%
	Kemy Holding Inc. ("Kemy")	Beneficial interest	4,740 shares of US$1.00 each	–	–	79.00%
Mr. Meng Yuxiao	the Company	Beneficial interest	–	12,000,000	12,000,000	0.82%
Mr. Deng Xuejun	the Company	Beneficial interest	–	12,000,000	12,000,000	0.82%
Mr. Hung, Randy King Kuen	the Company	Beneficial interest	5,000,000 Shares	12,000,000	17,000,000	1.17%
	Monitronix Limited	Beneficial interest	10 shares of HK$1.00 each	–	–	50.00%
Mr. Xia Ni	the Company	Beneficial interest	200,000 Shares	12,000,000	12,200,000	0.84%
Mr. Shi Cuiming	the Company	Beneficial interest	110,000 Shares	500,000	610,000	0.04%
Dr. Ma Kwai Yuen	the Company	Beneficial interest	500,000 Shares	500,000	1,000,000	0.07%
Dr. Lui Pan	the Company	Beneficial interest	–	500,000	500,000	0.03%

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".

(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, 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	527,561,012	36.20%
Mr. Zhao Bing (note 1)	Interest of controlled corporation	527,561,012	36.20%
Dimensional Fund Advisors LP (note 2)	Beneficial owner	85,802,000	5.89%

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. Dimensional Fund Advisors LP was interested in 85,802,000 shares of the Company as investment manager.

SHARE OPTION SCHEME

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

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

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

Details of movements of the options granted to Directors under the Pre-IPO Share Option Scheme for the year ended December 31, 2013 are as follows:

Directors	Date of Grant *(Note)*	Exercise price per Share *HK$*	As at January 1, 2013	Granted during the year	Exercised during the year	Forfeited during the year	Cancelled during the year	As at December 31, 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: The date of grant is deemed to be July 14, 2011 for financial reporting purposes.

Details of movements of the options granted under the Share Option Scheme for the year ended December 31, 2013 are as follows:

Directors	Date of Grant	Exercise price per Share *HK$*	As at January 1, 2013	Granted during the year	Exercised during the year	Forfeited during the year	Cancelled during the year	As at December 31, 2013	Exercise period *(Note)*
Mr. Meng Yuxiao	July 2, 2013	1.00	–	4,800,000	–	–	–	4,800,000	January 2, 2014 to July 1, 2023
Mr. Deng Xuejun	July 2, 2013	1.00	–	4,800,000	–	–	–	4,800,000	January 2, 2014 to July 1, 2023
Mr. Hung, Randy King Kuen	July 2, 2013	1.00	–	4,800,000	–	–	–	4,800,000	January 2, 2014 to July 1, 2023
Mr. Xia Ni	July 2, 2013	1.00	–	12,000,000	–	–	–	12,000,000	January 2, 2014 to July 1, 2023
Mr. Shi Cuiming	July 2, 2013	1.00	–	500,000	–	–	–	500,000	January 2, 2014 to July 1, 2023
Mr. Ma Kwai Yuen	July 2, 2013	1.00	–	500,000	–	–	–	500,000	January 2, 2014 to July 1, 2023
Dr. Lui Pan	July 2, 2013	1.00	–	500,000	–	–	–	500,000	January 2, 2014 to July 1, 2023
Employees of the Group in aggregate	July 2, 2013	1.00	–	48,500,000	–	–	–	48,500,000	January 2, 2014 to July 1, 2023
			–	76,400,000	–	–	–	76,400,000	

Note: Subject to vesting in accordance with the following schedule:
1/6: 6 months after date of grant
1/6: 12 months after date of grant
1/6: 18 months after date of grant
1/6: 24 months after date of grant
1/6: 30 months after date of grant
1/6: 36 months after date of grant

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	24.3%	
Five largest customers in aggregate	68.3%	
The largest supplier		25.8%
Five largest suppliers in aggregate		79.0%

According to the records of the Company, the directors of the Company, their associates or any shareholder of the Company (which to the knowledge of the directors of the Company own more than 5% of the Company's share capital) do not have any interest in these major customers and suppliers during the year.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

EMOLUMENT POLICY

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

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

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

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

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

CONFIRMATION OF INDEPENDENCE

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and that the Company still considers such directors to be 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, 2013, 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.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.21 OF CHAPTER 13 OF THE LISTING RULES

A facility agreement dated November 7, 2013 (the "Facility Agreement") was entered into between a wholly-owned subsidiary of the Company (as borrower) (the "Borrower") and China CITIC Bank International (as lender) (the "Lender") in respect of the term loan facility in the principal amount of US$20,000,000 granted to the Borrower for a term of 36 months after the date of the Facility Agreement.

Pursuant to the provisions of the Facility Agreement, among others, each of the following events constitutes an event of default:

(i) Kemy, the Company's controlling shareholder, ceases to legally and beneficially own at least 30.00% of the issued shares of the Company.

(ii) Mr. Zhao Bing, the Company's controlling shareholder, ceases to legally and beneficially own at least 75.00% of the issued shares of Kemy.

(iii) Mr. Zhao ceases to remain as management over the Company.

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 2013 as required under the Listing Rules.

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

In early 2014, Sifang Telecom, a wholly-owned subsidiary of the Company together with Professor He Zuyuan ("Professor He") formed a joint venture — Shanghai Net Miles Fiber Optic Technology Co., Ltd. (上海南明光纖技術有限公司). The registered capital of Net Miles Fiber Optic totals RMB10,000,000 of which RMB7,000,000 is from Sifang Telecom and RMB3,000,000 from Professor He, who is an internationally renowned expert in fiber optic sensing and specialty optical fiber technologies and an inventor of a number of international patents.

Details of the above transaction were disclosed in the announcement of the Company dated March 3, 2014.

PURCHASE, SALE OR REDEMPTION OF 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 26, 2014

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 52 to 108, which comprise the consolidated and company statements of financial position as of December 31, 2013, and the consolidated statement of profit or loss and other 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.

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 of December 31, 2013, 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 26, 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	4	**1,775,790**	1,494,223
Cost of sales		**(1,261,045)**	(1,067,732)
Gross profit		**514,745**	426,491
Other income	5	**11,115**	6,802
Selling and distribution expenses		**(10,537)**	(6,651)
Administrative expenses		**(75,816)**	(60,516)
Other expenses		**(3,114)**	(75)
Finance costs	6	**(34,888)**	(37,730)
PROFIT BEFORE TAX	6	**401,505**	328,321
Income tax expense	8	**(68,972)**	(56,149)
PROFIT FOR THE YEAR	9	**332,533**	272,172
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation		**(1,880)**	(3,034)
Total comprehensive income for the year attributable to owners of the Company		**330,653**	269,138
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	10	**RMB0.260**	RMB0.224

Details of the dividends proposed for the year ended December 31, 2013 are disclosed in note 29 to the financial statements.

Consolidated Statement of Financial Position

December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,007,789**	777,295
Prepaid land lease payments	12	**24,829**	25,448
Payments in advance	13	**278**	38,499
Goodwill	15	**15,563**	15,563
Entrusted loan receivables	16	**50,000**	–
Deferred tax assets	17	**4,720**	2,447
Total non-current assets		**1,103,179**	859,252
CURRENT ASSETS			
Inventories	18	**28,457**	36,703
Trade receivables	19	**1,381,765**	843,440
Prepayments, deposits and other receivables	20	**116,539**	25,804
Pledged bank balances	21	**68,456**	3,868
Cash and cash equivalents	21	**769,259**	795,823
Total current assets		**2,364,476**	1,705,638
CURRENT LIABILITIES			
Trade and notes payables	22	**279,324**	189,953
Other payables and accruals	23	**432,875**	353,337
Tax payable		**135,660**	103,234
Interest-bearing bank loans	24	**403,399**	410,284
Total current liabilities		**1,251,258**	1,056,808
NET CURRENT ASSETS		**1,113,218**	648,830
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,216,397**	1,508,082

Consolidated Statement of Financial Position

December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	24	**166,079**	–
Deferred income	25	**6,217**	3,727
Deferred tax liabilities	17	**16,584**	11,202
Total non-current liabilities		**188,880**	14,929
Net assets		**2,027,517**	1,493,153
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	**9,346**	7,871
Reserves	28	**1,960,883**	1,475,436
Proposed final dividend	29	**57,288**	9,846
Total equity		**2,027,517**	1,493,153

Zhao Bing
Director

Meng Yuxiao
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2013

	Issued capital RMB'000 *note 26*	Share premium RMB'000 *note 28(a)*	Statutory reserve fund RMB'000 *note 28(b)*	Special reserve RMB'000 *note 28(c)*	Share option reserve RMB'000 *note 27*	Capital contribution reserve RMB'000 *note 28(d)*	Foreign translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000
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 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 29)*	–	(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
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 year	–	–	–	–	–	–	–	332,533	–	332,533
Other comprehensive income for the year: Exchange difference on foreign currency translation	–	–	–	–	–	–	(1,880)	–	–	(1,880)
Total comprehensive income for the year	–	–	–	–	–	–	(1,880)	332,533	–	330,653
Issue of shares *(note 26)*	1,475	204,045	–	–	–	–	–	–	–	205,520
Share issue expenses	–	(4,128)	–	–	–	–	–	–	–	(4,128)
Equity-settled share option arrangements	–	–	–	–	12,165	–	–	–	–	12,165
Final 2012 dividend declared *(note 29)*	–	–	–	–	–	–	–	–	(9,846)	(9,846)
Proposed final 2013 dividend *(note 29)*	–	–	–	–	–	–	–	(57,288)	57,288	–
Transfer from/(to) reserves	–	–	23,921	–	–	–	–	(23,921)	–	–
At December 31, 2013	9,346	540,123*	102,060*	59,906*	19,605*	62,825*	(3,043)*	1,179,407*	57,288	2,027,517

* These reserves accounts comprise the consolidated reserves of RMB1,960,883,000 (2012: RMB1,475,436,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**401,505**	328,321
Adjustments for:			
Depreciation	11	**75,824**	60,644
Amortization of prepaid land lease payments	12	**619**	619
Loss on disposal of items of property, plant and equipment	6	**3,004**	–
Interest on bank loans	6	**34,888**	37,345
Equity-settled share option expense	27	**12,165**	4,005
Interest income	5	**(7,999)**	(4,898)
Deferred income released	5	**(1,080)**	(980)
		518,926	425,056
Decrease/(increase) in inventories		**8,246**	(8,279)
Increase in trade receivables		**(540,782)**	(92,755)
Increase in prepayments, deposits and other receivables		**(90,735)**	(2,556)
Increase in trade and notes payables		**89,371**	84,705
Increase in other payables and accruals		**81,866**	39,723
Cash generated from operations		**66,892**	445,894
Interest paid		**(34,598)**	(37,936)
Interest received from bank balances and deposits		**6,291**	4,898
Income tax paid		**(33,437)**	(33,147)
Net cash flows from operating activities		**5,148**	379,709
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received from entrusted loans		**1,708**	–
Purchases of items of property, plant and equipment		**(288,733)**	(71,766)
Entrusted loans granted	16	**(50,000)**	–
Proceeds from disposal of items of property, plant and equipment		**15,014**	–
Decrease/(increase) in pledged bank balances		**(64,588)**	27,292
Government grants		**3,570**	–
Net cash flows used in investing activities		**(383,029)**	(44,474)

Consolidated Statement of Cash Flows

Year ended December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	26	**205,520**	–
Share issue expenses		**(4,128)**	–
New bank loans		**680,970**	503,966
Repayment of bank loans		**(520,267)**	(590,900)
Dividends paid		**(9,846)**	–
Net cash flows from/(used in) financing activities		**352,249**	(86,934)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(25,632)**	248,301
Cash and cash equivalents at beginning of year		**795,823**	550,430
Effect of foreign exchange rate changes, net		**(932)**	(2,908)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**769,259**	795,823
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**769,259**	795,823

Statement of Financial Position

December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Office equipment		**32**	44
Investments in subsidiaries	*14*	**543,376**	283,376
Due from subsidiaries	*14*	**31,385**	30,000
Total non-current assets		**574,793**	313,420
CURRENT ASSETS			
Due from subsidiaries	*14*	**45,077**	244,135
Dividend receivable		**15,117**	–
Prepayments and other receivables		**912**	940
Cash at banks	*21*	**268,199**	107,226
Total current assets		**329,305**	352,301
CURRENT LIABILITIES			
Other payables		**1,941**	1,526
Due to subsidiaries	*14*	**73,162**	299,615
Total current liabilities		**75,103**	301,141
NET CURRENT ASSETS		**254,202**	51,160
Net assets		**828,995**	364,580
EQUITY			
Issued capital	*26*	**9,346**	7,871
Reserves	*28*	**762,361**	346,863
Proposed final dividend	*29*	**57,288**	9,846
Total equity		**828,995**	364,580

Zhao Bing
Director

Meng Yuxiao
Director

1. CORPORATE INFORMATION

China Fiber Optic Network System Group Ltd. (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, Cayman Islands. The Company's principal place of business in Hong Kong is Office Suite 2001–02, 20th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the business of the production and sale of fiber optic patch cords and other accessories. There were no significant changes in the nature of the Group's principal activities during the year.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB") and the International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with 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, 2013. 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 the subsidiaries are prepared using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and 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 — Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*
IAS 19 (Revised)	*Employee Benefits*
IAS 27 (Revised)	*Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of IFRSs issued in May 2012

The adoption of the new and revised IFRSs has had no 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 9	*Financial Instruments*[3]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[3]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRIC 21	*Levies*[1]
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs issued in December 2013[4]
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs issued in December 2013[2]

1 Effective for annual periods beginning on or after January 1, 2014
2 Effective for annual periods beginning on or after July 1, 2014
3 No mandatory effective date yet determined but is available for adoption
4 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions
5 Effective for first annual IFRS financial statements beginning on or after January 1, 2016

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

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

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

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as 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.

In November 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in November 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to IFRS 10 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.

The IAS 19 Amendments apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2015.

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.

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

The IAS 36 Amendments remove the unintended disclosure requirement made by IFRS 13 on the recoverable amount for each cash-generating unit to which goodwill or tangible assets with indefinite useful lives had been allocated when they are not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognized or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided IFRS 13 is also applied. The amendments are not expected to have any impact on the financial position or performance of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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 of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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.

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 of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 of disposal, 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.

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.

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.

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 are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) 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.

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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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.

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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;

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

(d) dividend income, when the shareholders' right to receive payment has been established.

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").

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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 27 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 in employee benefit expense. 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 of the beginning and end of that period.

No expense 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.

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.

Contributions to a defined contribution housing fund administered by the Public Accumulation Funds Administration Centre in Mainland China are charged to profit or loss as incurred. The Group's liability in respect of the housing fund is limited to the contribution payable in each period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

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 Hong Kong dollars ("HK$") 1,250 per month for each of its employees in Hong Kong and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company and its subsidiary incorporated outside the PRC is 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 measured. 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 is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

As of the end of the reporting period, the assets and liabilities of companies other than the PRC subsidiary are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profits or losses 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, 2013 was RMB15,563,000 (2012: RMB15,563,000). Further details are given in note 15.

(b) Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the two years ended December 31, 2013 and 2012.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(c) PRC corporate income tax ("CIT")

The Group's operating subsidiary in Mainland China is subject to PRC CIT. Certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, 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, 2013 was RMB135,660,000 (2012: RMB103,234,000).

(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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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 of 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, 2013 was RMB1,007,789,000 (2012: RMB777,295,000).

(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, 2013 was RMB4,720,000 (2012: RMB2,447,000). Further details are contained in note 17 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 costs 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, 2013 was RMB28,457,000 (2012: RMB36,703,000).

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:

	2013		2012	
	RMB'000	**%**	*RMB'000*	%
Fiber optic patch cords	**1,274,655**	**71.8**	1,476,511	98.8
Connection and distribution product series	**373,610**	**21.0**	5,880	0.4
Equipment room accessories	**127,525**	**7.2**	11,832	0.8
	1,775,790	**100.0**	1,494,223	100.0

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 the customers are determined based on the locations at which the goods were delivered.

	2013 ***RMB'000***	2012 *RMB'000*
Domestic*:		
— Mainland China	**1,550,208**	1,293,641
Overseas:		
— New Zealand	**165,713**	136,061
— Ireland	**26,454**	64,521
— Australia	**20,903**	–
— United Kingdom	**12,507**	–
— Others	**5**	–
	225,582	200,582
	1,775,790	1,494,223

* Place of domicile of the Group's principal subsidiary, Hebei Sifang Telecommunication 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.

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:

	2013 ***RMB'000***	2012 *RMB'000*
Customer A	**432,023**	514,285
Customer B	**	233,378
Customer C	**	187,895

** Less than 10%

5. OTHER INCOME

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

	2013 RMB'000	2012 RMB'000
Government grants*	**1,100**	–
Deferred income released *(note 25)*	**1,080**	980
Interest income	**7,999**	4,898
Rental income	**874**	879
Others	**62**	45
Total other income	**11,115**	6,802

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

6. PROFIT BEFORE TAX

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

	Notes	2013 RMB'000	2012 RMB'000
Cost of inventories sold		**1,261,045**	1,067,732
Employee benefit expense *(including directors' and chief executive's remuneration as set out in note 7)*:			
Wages and salaries		**25,352**	15,737
Equity-settled share option expense	*27*	**12,165**	4,005
Pension scheme contributions			
— Defined contribution fund		**2,748**	1,666
Housing fund			
— Defined contribution fund		**562**	302
Total employee benefit expense		**40,827**	21,710
Interest on bank loans		**34,888**	37,345
Bank loan guarantee fees		**–**	385
Finance costs		**34,888**	37,730
Auditors' remuneration		**3,300**	3,300
Depreciation of items of property, plant and equipment	*11*	**75,824**	60,644
Amortization of prepaid land lease payments	*12*	**619**	619
Operating lease rental in respect of a building		**711**	811
Loss on disposal of items of property, plant and equipment		**3,004**	–
Research and development costs		**15,186**	4,480

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's 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:

	2013 *RMB'000*	2012 *RMB'000*
Fees	**527**	537
Other emoluments:		
Salaries, allowances and benefits in kind	**3,745**	3,811
Equity-settled share option expense	**5,520**	4,005
Pension scheme contributions	**73**	70
	9,338	7,886
	9,865	8,423

During the year and prior year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 27 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 of the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

(a) Independent non-executive directors

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

	Fees *RMB'000*	Equity-settled share option expense *RMB'000*	Total *RMB'000*
2013			
Mr. Shi Cuiming	**160**	**68**	**228**
Dr. Lui Pan	**160**	**68**	**228**
Dr. Ma Kwai Yuen	**207**	**68**	**275**
	527	**204**	**731**
2012			
Mr. Shi Cuiming	163	–	163
Dr. Lui Pan	163	–	163
Dr. Ma Kwai Yuen	211	–	211
	537	–	537

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

(b) Executive directors and the chief executive

	Salaries, allowances and benefits in kind *RMB'000*	Equity-settled share option expense *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2013				
Zhao Bing	**796**	**–**	**–**	**796**
Meng Yuxiao	**709**	**1,224**	**12**	**1,945**
Hung, Randy King Kuen	**1,598**	**1,224**	**12**	**2,834**
Deng Xuejun	**124**	**1,224**	**37**	**1,385**
Xia Ni	**518**	**1,644**	**12**	**2,174**
	3,745	**5,316**	**73**	**9,134**
2012				
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

During the years ended December 31, 2013 and 2012, the Company does not have senior management with the title of Chief Executive Officer.

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

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

(c) Five highest paid employees

The five highest paid employees during the year included three directors (2012: five), details of whose remuneration are set out in note 7(b) above. Details of the remuneration for the year of the remaining two (2012: Nil) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2013 ***RMB'000***
Salaries, allowances and benefits in kind	**277**
Equity-settled share option expense	**3,288**
	3,565

The remuneration of the above highest paid employees during the year fell within the band from HK$2,000,001 to HK$2,500,000.

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:

	2013 ***RMB'000***	2012 *RMB'000*
Current — Mainland China		
Charge for the year	**65,863**	52,491
Deferred *(note 17)*	**3,109**	3,658
	68,972	56,149

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:

	2013 **RMB'000**	2012 RMB'000
Profit before tax	**401,505**	328,321
Tax at the applicable tax rate of 15	**60,226**	49,248
Effect of withholding tax at 10% on the distributable profit of Sifang Telecom *(note 17)*	**5,382**	4,460
Effect of change in tax rate on opening deferred tax	**1,631**	–
Expenses not deductible for tax	**1,733**	2,441
Tax charge at the Group's effective tax rate	**68,972**	56,149

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%.

In 2011, Sifang Telecom had been identified as high and new technology enterprise and was entitled to a preferential CIT rate of 15% for the two years ended December 31, 2012 and 2013.

9. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year includes a loss of RMB20,869,000 (2012: RMB11,475,000), excluding dividend income from a subsidiary, which has been dealt with in the financial statements of the Company (note 28).

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 1,278,450,685 (2012: 1,217,300,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended December 31, 2013 and 2012 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, 2013 and 2012.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	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, 2013						
Cost:						
At January 1, 2013	337,450	574,916	9,654	2,734	32,300	957,054
Additions	7,760	55,109	2,171	480	256,637	322,157
Transferred from CIP	150,502	–	850	–	(151,352)	–
Disposals	–	(36)	–	(520)	(15,788)	(16,344)
At December 31, 2013	495,712	629,989	12,675	2,694	121,797	1,262,867
Accumulated depreciation:						
At January 1, 2013	18,743	156,954	2,107	1,955	–	179,759
Provided for the year	11,694	62,851	1,107	172	–	75,824
Disposals	–	(36)	–	(469)	–	(505)
At December 31, 2013	30,437	219,769	3,214	1,658	–	255,078
Net carrying amount:						
At January 1, 2013	318,707	417,962	7,547	779	32,300	777,295
At December 31, 2013	465,275	410,220	9,461	1,036	121,797	1,007,789
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

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

At the end of each reporting period, certain of the Group's plant and machinery with an aggregate carrying amount of RMB500,305,000 (2012: RMB258,111,000) have been pledged to secure the Group's interest-bearing bank loans (note 24).

12. PREPAID LAND LEASE PAYMENTS

	Group	
	2013	2012
	RMB'000	*RMB'000*
Carrying amount at January 1	**26,067**	26,686
Additions during the year	**–**	–
Recognized during the year	**(619)**	(619)
Carrying amount at December 31	**25,448**	26,067
Current portion included in prepayments, deposits and other receivables *(note 20)*	**(619)**	(619)
Non-current portion	**24,829**	25,448

As of December 31, 2013, prepaid land lease payments with a net book amount of RMB20,909,000 (2012: RMB21,482,000) have been pledged to banks for bank loans granted to the Group (note 24).

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

13. PAYMENTS IN ADVANCE

Payments in advance as of December 31, 2013 and 2012 were in respect of prepayments for the purchase of property, plant and equipment.

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013 **RMB'000**	2012 RMB'000
Unlisted investments, at cost:	**543,376**	283,376
Amounts due from subsidiaries are repayable:		
On demand or within 1 year	**45,077**	244,135
In the second year	**6,943**	–
In the fifth year	**24,442**	30,000
	76,462	274,135

The amounts due from subsidiaries as of December 31, 2013 and 2012 are unsecured and interest-free.

As of December 31, 2013, except for the amounts due from subsidiaries denominated in US$ and HK$ amounted to RMB16,084,000 and RMB8,000 (2012: RMB50,284,000 and RMB83,396,000), respectively, all amounts due from subsidiaries are denominated in RMB.

The amounts due to subsidiaries included in the Company's current liabilities as of December 31, 2013 and 2012 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
Directly held:				
Sifang Telecom	Mainland China April 9, 1998	RMB528 million	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

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

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
China Fiber Optic Holdings Limited	Hong Kong January 4, 2012	HK$1	100	Dormant
China Fiber Optic (2013) Limited	Hong Kong September 19, 2013	HK$1	100	Investment holding
First Bright Technology Limited	Hong Kong October 4, 2013	HK$1	100	Investment holding

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. Goodwill acquired through business combination has been allocated to Sifang Telecom's cash-generating unit for impairment testing.

Impairment testing of goodwill

The recoverable amount of the cash-generating unit as of December 31, 2013 approximated RMB1,716 million (2012: RMB1,158 million) and has been determined based on a value in use calculation, using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.4% (2012: 11.6%).

Assumptions were used in the value in use calculation of Sifang Telecom's cash-generating unit for December 31, 2013 and 2012. 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 senior 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 projected periods.

The values assigned to the key assumptions on market development and the discount rate are consistent with external information sources.

16. ENTRUSTED LOAN RECEIVABLES

Group

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, respectively. The entrusted loan receivables bear interest rates at 10% above the benchmark lending rate promulgated by the People's Bank of China and are due for maturity in June 2016.

As of December 31, 2013, the Group held trade payables due to Simingshengguang with an aggregate amount of RMB58,409,000 (December 31, 2012: N/A) (note 22) as collateral over the entrusted loan receivables. The directors of the Company are of the opinion that the entrusted loan receivables are neither past due nor impaired.

Management has assessed that the fair values of the entrusted loan receivables by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which approximate to their carrying amounts. The fair value measurement hierarchy of the entrusted loan receivables requires significant unobservable inputs (Level 3).

17. DEFERRED TAX

Group

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

Deferred tax assets

	Accrued expenses *RMB'000*
At January 1, 2012	1,645
Deferred tax credited to profit or loss during the year *(note 8)*	802
At December 31, 2012 and January 1, 2013	2,447
Deferred tax credited to profit or loss during the year *(note 8)*	2,273
At December 31, 2013	4,720

17. DEFERRED TAX *(continued)*

Group *(continued)*

Deferred tax liabilities

	Withholding tax on distributable profits of Sifang Telecom *RMB'000*
At January 1, 2012	6,742
Deferred tax charged to profit or loss during the year *(note 8)*	4,460
At December 31, 2012 and January 1, 2013	11,202
Deferred tax charged to profit or loss during the year *(note 8)*	5,382
At December 31, 2013	16,584

Pursuant the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investments enterprises established in Mainland China. The requirement became effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 10%. The Group is therefore liable for withholding tax on dividends distributed by Sifang Telecom in respect of earnings generated from January 1, 2008. Pursuant to the resolution of the board of directors of Sifang Telecom dated July 25, 2013, 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, 2013 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 RMB5,382,000, representing 10% withholding tax on 25% of Sifang Telecom's distributable profit for the year ended December 31, 2013, has been provided for during the year. The aggregate amount of temporary differences associated with investments in Sifang Telecom in Mainland China for which deferred tax liabilities have not been recognized approximated RMB694,856,000 at December 31, 2013 (2012: RMB533,390,000).

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. As of December 31, 2013, Sifang Telecom has not obtained the renewed certificate as high and new technology enterprise. Therefore, for Sifang Telecom, deferred tax assets are measured at 25% for the year ended December 31, 2013 (2012:15%).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

18. INVENTORIES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Raw materials	**17,425**	6,502
Work in progress	**3,929**	18,362
Finished goods	**7,103**	11,839
	28,457	36,703

19. TRADE RECEIVABLES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**1,381,765**	843,440
Impairment	**–**	–
	1,381,765	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 each reporting period, based on the invoice date, is as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Within 1 month	**249,846**	147,673
1 to 3 months	**388,280**	249,938
3 to 6 months	**445,256**	310,437
6 to 12 months	**279,129**	123,793
12 to 16 months	**17,144**	11,015
Over 16 months	**2,110**	584
	1,381,765	843,440

19. TRADE RECEIVABLES *(continued)*

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,266,491**	831,841
Past due but not impaired		
Less than 1 month past due	**56,013**	10,395
Over 1 month but within 3 months past due	**54,179**	611
Over 3 months past due	**5,082**	593
	1,381,765	843,440

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 of the Company 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, 2013, certain trade receivables with an aggregate amount of RMB178,864,000 (2012: RMB81,869,000) have been pledged to secure the Group's interest-bearing bank loans (note 24).

At the end of the reporting period, trade receivables of the Group denominated in US$ amounted to RMB189,663,000 (2012: RMB81,869,000).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Prepayments for purchase of raw materials	**112,672**	23,927
Prepaid land lease payments to be amortized within one year *(note 12)*	**619**	619
Other receivables	**3,248**	1,258
	116,539	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.

21. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**463,459**	718,018	**118,218**	33,797
Time deposits with original maturity less than 3 months	**374,256**	81,673	**149,981**	73,429
	837,715	799,691	**268,199**	107,226
Less: Pledged bank balances*	**(68,456)**	(3,868)	**–**	–
	769,259	795,823	**268,199**	107,226

* The pledged bank balances as of December 31, 2013 and December 31, 2012 represented cash at banks pledged for the issuance of banker acceptance (note 22).

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**809,016**	765,945	**255,427**	73,595
US$	**27,478**	32,796	**11,714**	32,774
HK$	**1,221**	950	**1,058**	857
	837,715	799,691	**268,199**	107,226

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 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.

22. TRADE AND NOTES PAYABLES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Trade payables	**158,039**	184,145
Notes payable	**121,285**	5,808
	279,324	189,953

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**161,088**	118,569
3 months to 6 months	**109,796**	4,419
6 months to 1 year	**2,612**	59,795
Over 1 year	**5,828**	7,170
	279,324	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 suppliers. As of December 31, 2013, trade payables with an aggregate amount of RMB58,409,000 (2012: N/A) were held as collateral for the entrusted loan receivables (note 16).

Notes payable are interest-free with terms of maturity of within 180 days. As of December 31, 2013, notes payable were secured by the pledge of cash at banks of RMB68,456,000 (2012: RMB3,868,000) (note 21).

23. OTHER PAYABLES AND ACCRUALS

	Group	
	2013	2012
	RMB'000	*RMB'000*
Payables related to:		
Taxes and surcharges	**369,909**	286,257
Payroll and welfare	**8,566**	9,301
Property, plant and equipment	**42,596**	47,393
Professional fees	**1,314**	1,314
Advance from government agencies	**1,500**	1,500
Others	**3,165**	959
	427,050	346,724
Accruals	**5,825**	6,613
	432,875	353,337

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

24. INTEREST-BEARING BANK LOANS

		Group	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
Secured	*(a)*	**515,325**	410,284
Unsecured	*(b)*	**54,153**	–
		569,478	410,284
Repayable:			
Within one year		**403,399**	410,284
In the second year		**146,817**	–
In the third to fifth years, inclusive		**18,279**	–
Beyond five years		**983**	–
		569,478	410,284
Balances classified as current liabilities		**403,399**	410,284
Balances classified as non-current liabilities		**166,079**	–

24. INTEREST-BEARING BANK LOANS *(continued)*

(a) As of December 31, 2013, included in secured bank loans is a bank loan of RMB2,162,000 (2012: Nil) which is denominated in HK$, bears interest at 3.1% below the Hong Kong dollar prime rate per annum and is repayable by 120 monthly equal instalments commencing on March 3, 2013.

The bank loans were secured by:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Secured by — net book amount of:		
Property, plant and equipment *(note 11)*	**500,305**	258,111
Prepaid land lease payments *(note 12)*	**20,909**	21,482
Trade receivables *(note 19)*	**178,864**	81,869

(b) As of December 31, 2013, the Group's unsecured bank loan which bears interest at 3% above the prevailing London Interbank Offered Rate per annum is repayable within three years by instalments.

As of December 31, 2013, except for the bank loans bearing interest at floating rate detailed in note 24 (a) and (b) above, all other bank loans bear interest at fixed rates per annum in the range of 4.24% to 8.20% (2012: 4.81% to 8.20%).

As of December 31, 2013, except for the bank loans of RMB127,316,000 (2012: RMB50,284,000) denominated in US$ and bank loans detailed in note 24 (a) above denominated in HK$, all other bank loans are denominated in RMB.

The directors of the Company have assessed that the fair value of the long-term interest-bearing bank loans approximate to their carrying amount based on the prevailing borrowing rates available for loans with similar terms and maturities during the reporting period. The fair value measurement hierarchy of the bank loans requires significant observable input (Level 2).

25. DEFERRED INCOME

	Group	
	2013	2012
	RMB'000	*RMB'000*
At beginning of year	**3,727**	4,707
Additions	**3,570**	–
Released to profit or loss *(note 5)*	**(1,080)**	(980)
At end of year	**6,217**	3,727

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.

26. SHARE CAPITAL

	2013 RMB'000	2012 RMB'000
Authorized:		
10,000,000,000 (2012: 10,000,000,000) ordinary shares of US$0.001 each	**64,716**	64,716
Issued and fully paid:		
1,457,300,000 (2012: 1,217,300,000) ordinary shares of US$0.001 each	**9,346**	7,871

On September 30, 2013, 240,000,000 shares were issued through placing agent at a price of HK$1.08 per share. The proceeds of HK$1,860,000 (equivalent to RMB1,475,000), representing the par value, have been credited to the Company's share capital. The remaining proceeds of HK$257,340,000 (equivalent to approximately RMB204,045,000), before issue expenses, have been credited to the share premium account.

27. 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.

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.

27. SHARE OPTION SCHEMES *(continued)*

On July 2, 2013, a total of 76,400,000 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, 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.

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.

27. SHARE OPTION SCHEMES *(continued)*

The following share options were outstanding under the Old Option Scheme as of December 31, 2013 and 2012:

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

The fair value of the share options granted 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$2,088,000 (equivalent to approximately RMB1,701,000) during the year ended December 31, 2013 (2012: HK$4,939,000 (equivalent to approximately RMB4,005,000)).

The following share options were outstanding under the New Option Scheme as of December 31, 2013 (2012: Nil):

Exercise price *HK$ per share**	Number of options *'000*	Exercise period
1.0	12,733	January 2, 2014 to July 1, 2023
1.0	12,733	July 2, 2014 to July 1, 2023
1.0	12,733	January 2, 2015 to July 1, 2023
1.0	12,733	July 2, 2015 to July 1, 2023
1.0	12,733	January 2, 2016 to July 1, 2023
1.0	12,735	July 2, 2016 to July 1, 2023
	76,400	

* 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 during the year under the New Option Scheme was HK$33,660,000 (equivalent to approximately RMB26,806,000) or HK$0.44 each (equivalent to approximately RMB0.35 each), of which the Group recognized a share option expense of HK$13,155,000 (equivalent to approximately RMB10,464,000) during the year ended December 31, 2013 (2012: Nil).

The Company had 14,400,000 share options exercisable as of December 31, 2013 (2012: 7,200,000 shares) with a weighted average exercise price of HK$1.2 per share (2012: HK$1.2 per share).

27. SHARE OPTION SCHEMES *(continued)*

The fair values of equity-settled share options granted under the Old Option Scheme and the New Option Scheme were estimated as of 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:

	Old Option Scheme	New Option Scheme
Exit rate (%)	10.00	10.00
Dividend yield (%)	Nil	1.13
Expected volatility (%)	49.90	54.00
Risk-free interest rate (%)	2.27	3.05

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

At December 31, 2013 the Company had 21,600,000 share options outstanding under the Old Option Scheme and 76,400,000 share options outstanding under the New Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 98,000,000 additional shares and additional share capital of US$98,000 (equivalent to approximately RMB597,000) and share premium of US$13,096,000 (equivalent to approximately RMB79,846,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 98,000,000 share options outstanding under the share option schemes, which represented approximately 6.72% of the Company's shares in issue as of that date.

28. 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 55 to the financial statements.

(a) Share premium

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law 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.

28. RESERVES *(continued)*

Group *(continued)*

(c) *Special reserve*

On December 8, 2008, Sifang Telecom entered into a debt restructuring agreement with the 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 the 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.

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*	Retained earnings/ (accumulated losses) *RMB'000*	Total *RMB'000*
At January 1, 2012		350,052	62,825	3,435	4,283	(54,712)	365,883
Total comprehensive loss for the year		–	–	–	(1,704)	(11,475)	(13,179)
Equity-settled share option arrangement	27	–	–	4,005	–	–	4,005
Proposed final 2012 dividend	29	(9,846)	–	–	–	–	(9,846)
At December 31, 2012		340,206	62,825	7,440	2,579	(66,187)	346,863
Total comprehensive income for the year		–	–	–	(1,841)	262,545	260,704
Equity-settled share option arrangement	27	–	–	12,165	–	–	12,165
Issue of shares	26	204,045	–	–	–	–	204,045
Share issue expenses		(4,128)	–	–	–	–	(4,128)
Proposed final 2013 dividend	29	–	–	–	–	(57,288)	(57,288)
At December 31, 2013		540,123	62,825	19,605	738	139,070	762,361

29. DIVIDENDS

(a) Dividend attributable to the year

	RMB'000
Proposed final 2013 dividend of HK$5 cents per ordinary share	57,288

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

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

	RMB'000
Proposed final 2012 dividend of HK$1 cent per ordinary share:	
Declared during the year	9,846
Paid during the year	(9,846)
	–

30. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in notes 11, 12, 19 and 24, respectively, to the financial statements.

31. 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 leases negotiated for terms ranging from two to twenty years. At December 31, 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Within one year	**1,729**	856
In the second to fifth years, inclusive	**4,404**	862
After five years	**228**	248
	6,361	1,966

31. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) 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, 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013 **RMB'000**	2012 *RMB'000*
Within one year	**1,689**	1,506
In the second to fifth years, inclusive	**2,182**	4,065
	3,871	5,571

32. COMMITMENTS

In addition to the operating lease arrangements detailed in note 31(b) above, the Group had the following capital commitments at the end of each reporting period:

	Group	
	2013 **RMB'000**	2012 *RMB'000*
Contracted, but not provided for:		
— Property, plant and machinery	**35,786**	31,319

33. CONTINGENT LIABILITIES

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

34. 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:

	2013 **RMB'000**	2012 *RMB'000*
Basic salaries and other benefits	**4,798**	4,326
Equity-settled share option expense	**12,096**	4,005
Pension scheme contributions	**73**	147
	16,967	8,478

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group mainly include cash and cash equivalents, pledged bank balances, entrusted loan receivables, and 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.

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:

Group

	December 31, 2013					
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	–	310,327	109,675	178,093	1,123	599,218
Trade and notes payables	5,828	18,931	254,565	–	–	279,324
Other payables and accruals	54,400	–	–	–	–	54,400
	60,228	329,258	364,240	178,093	1,123	932,942

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

Liquidity risk *(continued)*

Group *(continued)*

	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*	Over 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

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing bank loans and entrusted loan receivables. The interest rates and terms of repayment of interest-bearing bank loans are disclosed in note 24. The Group manages its interest rate exposure arising from its interest-bearing loans through the use of a mix of floating and fixed rates.

The Group has not used any interest rate swaps to hedge against interest rate risk and the Group does not consider that it has any significant exposure to the risk of changes in market interest rates from its bank deposits and entrusted loan receivables as a reasonably possible change of 25 basis points in the interest rates would have no material impact on the Group's profit or loss during the year.

Credit risk

The Group's principal financial assets are cash and cash equivalents, pledged bank balances, trade and other receivables, entrusted loan 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. At the end of the reporting period, the Group had certain concentrations of credit risk as 68% (2012: 89%) of the Group's trade receivables were due from the Group's five largest customers. 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.

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

Credit risk *(continued)*

The carrying amounts of trade and other receivables, entrusted loan 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 the 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$ and HK$, 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, interest-bearing bank loans and trade receivables denominated in US$).

	2013 ***RMB'000***	2012 *RMB'000*
Increase/(decrease) in profit before tax:		
If RMB weakens against US$	**4,491**	3,219
If RMB strengthens against US$	**(4,491)**	(3,219)

35. 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 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 at the end of each reporting period were as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
Interest-bearing bank loans	**569,478**	410,284
Trade and notes payables	**279,324**	189,953
Other payables and accruals	**432,875**	353,337
Tax payable	**135,660**	103,234
Less: Cash and cash equivalents	**(769,259)**	(795,823)
Pledged bank balances	**(68,456)**	(3,868)
Net debt	**579,622**	257,117
Equity	**2,027,517**	1,493,153
Equity and net debt	**2,607,139**	1,750,270
Gearing ratio	**22%**	15%

36. EVENTS AFTER THE REPORTING PERIOD

On March 3, 2014, Sifang Telecom together with Professor He Zuyuan formed a joint venture, Shanghai Net Miles Fiber Optic Technology Co., Ltd ("Net Miles Fiber Optic"). The registered capital of Net Miles Fiber Optic totals RMB10,000,000, of which RMB7,000,000 is from Sifang Telecom and RMB3,000,000 is from Professor He Zuyuan.

Net Miles Fiber Optic was principally engaged in the business of manufacturing fiber optic equipment and the development of fiber optic related technology. Its main products are optical fibers for telecommunication as well as specialty optical fibers for both telecommunication and non-telecommunication uses.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on March 26, 2014.