ANNUAL REPORT

2014

CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3777

Contents

Financial Highlights

For the year ended December 31, 2014, the operating results of the Group were as follows:

— Revenue rose 24.4% to RMB2,208,885,000;

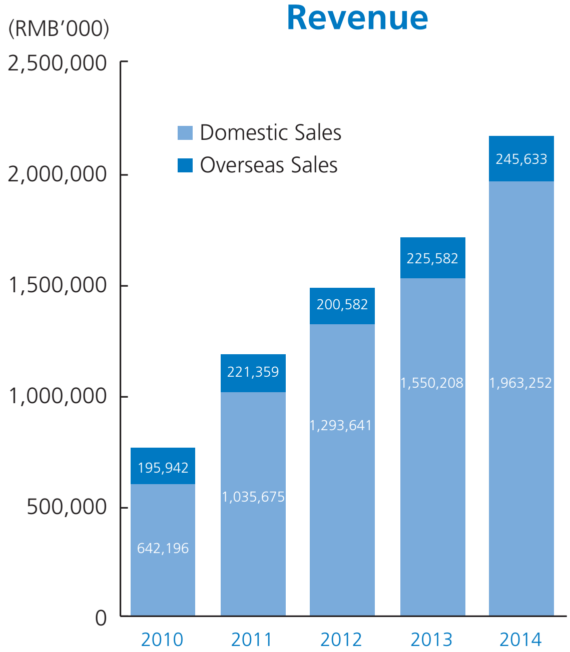
— Gross profit margin went up from 29.0% to 30.7%;

— Profit for the year increased by 27.8% to RMB425,111,000;

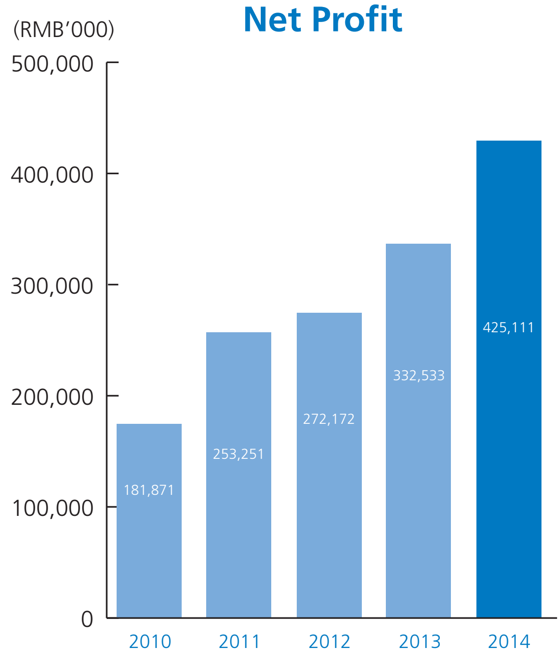
— Basic and diluted earnings per share increased 5.8% and 2.7% to RMB27.5 cents and RMB26.7 cents respectively; and

— The directors do not recommend the payment of cash dividend in respect of the year but propose to make a bonus issue of two new shares credited as fully paid for every ten existing shares.

Revenue



Net Profit



	Year ended December 31				
	2010	2011	2012	2013	**2014**
Gross Profit Margins					
Fiber Optic Patch Cords (Domestic)	25.3%	26.2%	24.2%	26.5%	**28.5%**
Fiber Optic Patch Cords (Overseas)	53.9%	57.9%	56.4%	57.8%	**58.2%**
Overall	32.0%	31.8%	28.5%	29.0%	**30.7%**
Effective Tax Rate					
Effective Tax Rate	14.2%	15.2%	17.1%	17.2%	**19.0%**
Net Profit Margin					
Net Profit Margin	21.7%	20.1%	18.2%	18.7%	**19.2%**
Financial Position					
Total Assets (RMB'000)	1,266,487	2,198,299	2,564,890	3,467,655	**4,718,461**
Total Liabilities (RMB'000)	589,058	978,289	1,071,737	1,440,138	**1,787,094**
Net Assets (RMB'000)	677,429	1,220,010	1,493,153	2,027,517	**2,931,367**
Gearing Ratio	40.0%	24.0%	14.7%	22.2%	**18.4%**
Working Capital Cycles					
Trade Receivable Turnover Days	207	191	195	226	**292**
Trade Payables Turnover Days	27	27	50	68	**68**
Inventory Turnover Days	11	11	11	9	**18**
Return on Equity	26.8%	20.8%	18.2%	16.4%	**14.5%**
Operating efficiency (percentage of revenue)					
Selling and distribution expenses	0.9%	0.7%	0.4%	0.6%	**0.7%**
Administrative expenses	4.1%	5.4%	4.0%	4.3%	**5.0%**
Finance costs	1.9%	2.2%	2.5%	2.0%	**1.8%**

Company Overview

China Fiber Optic Network System Group Ltd. ("the Company"), together with its subsidiaries ("the Group") is a leading solution provider of optical interconnect equipment in China.

The Group produces and sells a comprehensive portfolio of active and passive optical interconnect equipment used in a variety of applications in the telecommunications and other industries.

The Group currently targets active and passive optical interconnection 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 exports to overseas markets including Australia, New Zealand and UK.

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 CHINA

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

New Industrial Zone, Shanghai, 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
Dr. Xu Wanqiang
Prof. Jiang Desheng

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:

Brandt Chan & Partners
Robertsons Solicitors

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
The Hongkong and Shanghai Banking Corporation Limited

STOCK INFORMATION

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

3777

Listing Date

July 14, 2011

Issued Share Capital

1,742,412,000 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,

In 2014, by the way of strengthening our investments in technologies and capital, the Group had developed active optical interconnection products while keeping up sales growth momentum from current products. We also continued to implement of our vertical integration strategy and has commenced the production of upstream components and downstream products of ceramic ferrules. These efforts serve to prepare the Group to emerge from a telecommunications equipment manufacturer to become an optical interconnect solution provider.

Through setting up Shanghai Net Miles Fiber Optics Technology Co., Ltd, with Professor He Zuyuan, and collaborating with Shanghai Jiao Tong University to establish the "Shanghai Jiao Tong University-Net Miles Joint Laboratory for Optical Interconnection Technology", the Group has earmarked RMB25 million on research and development on commercializing optical interconnect technology. Meanwhile, the Group also becomes the largest shareholder of Advanced Photonics, Inc. in Japan, which is set to continue to develop advanced optical interconnect products.

The Group's ceramic ferrules component processing facilities in Canada and production facilities in China officially commenced operations during the year. The Group now has the ability to mass produce ceramic ferrules, which will help further enhancing the Group's overall gross profit margin.

The Group has signed a framework agreement with a subsidiary of China Telecom to cooperate in the construction and operation of broadband Internet services. The Group will share revenue from the broadband Internet services with China Telecom over a number of years, marking an important milestone on our transformation into an internet infrastructure constructor and a professional internet operator.

Looking to 2015, the Group faces significant opportunities and challenges. The market is characterized by innovation and change with risk and development coexisting. Accordingly, we will continue to implement our vertical integration strategy to improve the Group's revenue structure by expanding production capacity of ceramic ferrules on the upstream and exploring the downstream with Internet infrastructure construction and operation business, to lay the foundation for the ultimate transformation into a high-speed Internet operator.

On behalf of the Board of Directors, I would like to take this opportunity to thank our management team and staff for their tireless efforts. I would also like to offer my sincere and heartfelt thanks to all our shareholders, customers, suppliers, and business partners for their full support of the Group over the years.

Zhao Bing
Chairman

Hong Kong, March 30, 2015

OVERVIEW

During 2014, the Group's revenue rose 24.4% to RMB2,208,885,000, driven by sales volume growth from all product categories. Gross profit margin saw an increase from 29.0% to 30.7%, as the Group began to mass produce ceramic ferrules in-house. Profit before tax increased to RMB524,865,000, an increase of 30.7% from the last year and profit for the year increased by 27.8% to RMB425,111,000.

Basic and diluted earnings per share for 2014 rose 5.8% and 2.7%, respectively to RMB27.5 cents and RMB26.7 cents.

The directors do not recommend the payment of cash dividend in respect of the year (2013: HK5 cents) but propose to make a bonus issue of two new shares credited as fully paid for every ten existing shares held by the shareholders of the Company whose names appear on the register of members on July 10, 2015, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

In December 2014, the Group entered into a Framework Agreement with a subsidiary of China Telecom Corporation ("China Telecom") to cooperate in the construction and operation of FTTH broadband network infrastructure. The Group and China Telecom will share the broadband revenue generated from these FTTH broadband networks for a period of 7 years. The Framework Agreement is the Group's first attempt to participate in the operations of state-owned telecom business as a private enterprise, as supported by national policy. It is also the Group's first step to ascend from a telecom equipment manufacturer to a constructor and an operator of the internet infrastructure. The Group plans to expand this new broadband revenue sharing business model to other target cities in various provinces in China.

REVENUE BY PRODUCT CATEGORY

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

	Year ended December 31,		
	2014	2013	Growth
	RMB'000	*RMB'000*	
Fiber optic patch cords	**1,620,847**	1,274,655	27.2%
Connection & distribution products	**425,038**	373,610	13.8%
Equipment room accessories	**163,000**	127,525	27.8%
	2,208,885	1,775,790	24.4%

Sales revenue of fiber optic patch cords in 2014 increased by 27.2% to RMB1,620,847,000. Connection and distribution products saw a slight increase in sales, increasing 13.8% to RMB425,038,000, while equipment room accessories rose 27.8% to RMB163,000,000. This growth was primarily driven by 4G infrastructure deployment and continued roll-out of fiber to the home by telecom operators during the year.

DOMESTIC AND OVERSEAS SALES

Domestic and overseas sales accounted for 88.9% and 11.1% of the Group's total revenue in 2014, respectively, compared to 87.3% and 12.7% in 2013.

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

	Year ended December 31,		
	2014	2013	Growth
	RMB'000	*RMB'000*	
Domestic sales — fiber optic patch cords	**1,375,214**	1,049,073	31.1%
Domestic sales — other products	**588,038**	501,135	17.3%
	1,963,252	1,550,208	26.6%
Overseas sales — fiber optic patch cords:			
— New Zealand	**110,724**	165,713	(33.2%)
— Australia	**80,504**	20,903	285.1%
— United Kingdom	**54,405**	12,507	335.0%
— Ireland	**–**	26,454	(100.0%)
— Others	**–**	5	(100.0%)
	245,633	225,582	8.9%
	2,208,885	1,775,790	24.4%

Domestic sales of fiber optic patch cords surged 31.1% to RMB1,375,214,000, compared to RMB1,049,073,000 in 2013, mainly benefiting from 4G infrastructure deployment.

Overseas sales of fiber optic patch cords increased 8.9% to RMB245,633,000, as Australia and the United Kingdom saw increases of 285.1% and 335.0% in revenue, respectively. The Group will continue to expand our overseas business through reaching out to more countries with new high tech products such as active optical cables.

GROSS PROFIT MARGIN

The following table sets forth gross profit margins from the Group's overall sales and from domestic and overseas sales of our products for 2014 and 2013:

	Year ended December 31,	
	2014 Gross profit margin	2013 Gross profit margin
Overall sales	**30.7%**	29.0%
Fiber optic patch cords — domestic sales	**28.5%**	26.5%
Fiber optic patch cords — overseas sales	**58.2%**	57.8%
Connection and distribution products	**24.6%**	22.2%
Equipment room accessories	**23.1%**	17.9%

The Group's overall gross profit margin was 30.7%, compared to 29.0% last year. The higher overall gross profit margin was primarily due to our continued efforts to vertically integrate. In particular, our ceramic ferrules began mass production in the fourth quarter of 2014, which has brought down our costs of production. A higher volume of ceramic ferrules will be produced in 2015 which will further lower our product costs.

OTHER INCOME

During 2014, other income went up by 77.2% to RMB19,700,000 due to more interest income generated from fixed deposits.

SELLING AND DISTRIBUTION COSTS

During 2014, selling and distribution costs of the Group increased by 53.2% to RMB16,143,000. 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 marketing expenses for overseas market.

Selling and distribution costs were 0.7% and 0.6% of revenue for the year ended December 31, 2014 and 2013 respectively.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 45.5% to RMB110,302,000 in 2014. 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 RMB25,528,000 to RMB30,111,000 during 2014 mainly due to the increases in headcounts and staff remuneration .

Research and development costs were RMB26,492,000 and RMB15,186,000 for the year of 2014 and 2013 respectively. The Group continues to add resources to research and development to strengthen new product pipeline, to suit specific needs of our customers.

Depreciation of property, plant and equipment not related to production increased to RMB10,247,000 for the year from RMB5,997,000 of last year.

General administrative expenses such as travelling, professional fees and other general operating expenses increased from RMB13,145,000 to RMB27,779,000 as the scale and scope of business and operations had been expanded.

Administrative expenses accounted for 5.0% and 4.3% of total revenue respectively for the year of 2014 and 2013.

FINANCE COSTS

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

Finance costs increased by 15.3% to RMB40,240,000 as compared to last year as the average balance of bank loans in 2014 was higher than 2013.

The effective interest rates of our bank loans per annum were ranging from 2.2% to 7.8% and 2.2% to 8.2% as of December 31, 2014 and 2013 respectively.

For the year of 2014 and 2013, finance costs accounted for 1.8% and 2.0% of total revenue respectively.

INCOME TAX EXPENSES

Income tax expenses increased by 44.6% to RMB99,754,000 in 2014. The increase was more than the increase in profit during the year due to increase in non-deductible items such as high portion of interest expense included from bank borrowings of the Company and a subsidiary in Hong Kong. The effective tax rate in 2014 was 19.0% as compared to 17.2% 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 2014.

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 2014 and 2013.

EARNINGS PER SHARE

The following table shows the movement of shares during the year:

	Date	Number of Shares	Weighted Average Number of Shares
Opening	January 1, 2014	1,457,300,000	1,457,300,000
Repurchased shares	June 4, 2014	(2,300,000)	(1,323,288)
Placing	September 10, 2014	291,000,000	89,293,151
Repurchased shares	December 31, 2014	(3,588,000)	(19,496)
Ending	December 31, 2014	1,742,412,000	1,545,250,367

The total number of shares outstanding as of January 1, 2014 was 1,457,300,000. The Group repurchased a total of 5,888,000 shares at an aggregate purchase price of HK$11,795,000 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group completed a placing of 291,000,000 of new shares on September 10, 2014 ("Placing"). Subsequent to the completion of Placing and repurchases, the total number of shares issued and outstanding became 1,742,412,000 shares as at December 31, 2014.

Basic and diluted earnings per share for 2014 calculated based on weighted average number of ordinary shares of 1,545,250,367 in issue were RMB27.5 cents and RMB26.7 cents, an increase of 5.8% and 2.7% compared to RMB26.0 cents based on weighted average number of ordinary shares of 1,278,450,685 of last year.

CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB311,897,000 for the year ended December 31, 2014, which were mostly related to upgrade factory buildings and production facilities, purchasing of equipments and machinery to expand production capacity, construction of staff quarters and other facilities and investment in Advanced Photonics. Inc. ("APi"). Capital expenditures were primarily funded by cash from operations, net proceeds from the Placing and bank borrowings.

For 2015, the Group expects to earmark capital expenditures of roughly RMB400,000,000 to establish production facilities at the Shanghai joint venture and Canada, acquire production and research and development equipment, construct employee quarters, and establish other relevant facilities to enhance productivity.

USE OF PROCEEDS FROM THE PLACING

The Company confirms that up to February 28, 2015, net proceeds of HK$675,839,442 (approximately equivalent to RMB537,845,000) from placing of 291,000,000 of new shares in August 2014 has been applied as follows:

(i) RMB137,183,725 for establishing product facilities for product components; and

(ii) RMB85,392,021 as working capital.

The Company further confirms that the remaining balance of net proceeds will continue to be applied for its stated purposes as referred in the announcement of the Company's placing of new shares dated August 28, 2014.

DIVIDEND AND BONUS ISSUE OF SHARES

The directors do not recommend the payment of cash dividend for the year ended 31 December 2014 but propose to make a bonus issue of two new shares credited as fully paid for every ten existing shares held to the shareholders of the Company whose names appear on the registers of members on July 10, 2015. The necessary resolution will be proposed at the forthcoming annual general meeting to be held on June 23, 2015 (the "AGM"), and if passed and obtained the approval from the Listing Committee of the Stock Exchange for granting of listing and permission to deal in the bonus shares, share certificates of the bonus issue will be posted on or about July 17, 2015.

As a result of such bonus issue, the exercise price and/or the number of shares to be issued pursuant to the outstanding unexercised share options granted and vested under the Company's option schemes may be adjusted accordingly.

Further information of the Bonus Issue will be set out in a circular for dispatch by the Company to the shareholders in due course.

CAPITAL STRUCTURE

Major changes on capital structure during 2014 are as follows:

(1) borrowings from banks increased from RMB569,478,000 to RMB694,473,000; and

(2) the placement of 291,000,000 new shares at HK$2.42 per share on September 10, 2014.

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, 2014 and 2013 were 18.4% and 22.2% respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2014, cash and bank balances of the Group amounted to RMB1,086,492,000 comprising of RMB1,014,122,000 and others being equivalent to RMB28,521,000, RMB12,939,000 and RMB30,910,000 denominated in HK dollars, US dollars and Canadian dollars respectively.

During 2014, we financed our operations through cash generated from operating activities, bank borrowings and proceeds from the Placing.

Current assets net of current liabilities, was RMB1,876,586,000 as of December 31, 2014. The Group had RMB216,921,000 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,	
	2014	2013
	RMB'000	*RMB'000*
Net cash flows (used in)/from operating activities	**(102,486)**	5,148
Net cash flows used in investing activities	**(404,865)**	(383,029)
Net cash flows from financing activities	**593,101**	352,249
Net increase/(decrease) in cash and cash equivalents	**85,750**	(25,632)

Net cash flows used in operating activities for the year 2014 was primarily related to profit adjusted after non-cash expenses for the year amounted to RMB648,112,000 offset by the increase in trade receivables of RMB814,294,000.

Net cash flow used in investing activities for the year 2014 was related to reduction of pledged deposit of RMB23,721,000 and payments of RMB289,512,000 for capital expenditure and increase in time deposit of RMB190,396,000.

Net cash inflows from financing activities for the year 2014 was primarily derived from net increase of RMB121,877,000 in bank borrowings and proceeds of RMB558,131,000 from the Placing in September 2014.

TRADE AND NOTES RECEIVABLES

Trade and notes receivables balances increased by 59.0% to RMB2,196,746,000 as at December 31, 2014. The increase was due to the increase of total revenue for the year and in particular increase of 23.6% of revenue for the month of December 2014, in addition to delay of completion of certain telecom projects of some customers.

As of December 31, 2014, there were RMB223,884,000 of trade receivables past due beyond the contractual credit term. Payments of RMB222,596,000 of these past due amounts were collected by March 30, 2015.

As of March 30, 2015, a total of RMB274,703,000 from these trade receivables were collected from customers.

Trade receivable turnover days were 292 days and 226 days for the year ended December 31, 2014 and 2013.

There were no bad debt provisions made on trade receivables for the years ended December 31, 2014 and 2013.

INVENTORIES

Inventories as at December 31, 2014 amounted to RMB121,785,000 as compared to RMB28,457,000 as at December 31, 2013.

The increase of inventories was primarily attributable to the increase of work-in-progress from RMB3,929,000 to RMB20,645,000, and finished goods from RMB7,103,000 to RMB71,232,000. Most of these finished goods (including those from work-in-progress) were sold to customers as of the date of this report.

Inventory turnover days were 18 days and 9 days for the years ended December 31, 2014 and 2013.

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

Decrease in balance of prepayments, deposits and other receivables to RMB41,736,000 was mainly due to decrease in prepayments for purchase of raw material.

ENTRUSTED LOAN RECEIVABLES

The Group's supplier fully repaid the entrusted loan in December 2014. Please refer to note 17 to the audit consolidated financial statements for more details.

TRADE AND NOTES PAYABLES

Trade and notes payables as at December 31, 2014 was RMB294,429,000 as compared to RMB279,324,000 as at December 31, 2013.

Trade and notes payables turnover days were 68 days for the years ended December 31, 2014 and 2013.

INDEBTEDNESS

As of December 31, 2014, our total bank loans amounted to RMB694,473,000 (2013: RMB569,478,000). A total of RMB193,320,377 equivalent of bank loans was denominated in US dollars (2013: RMB129,478,000).

Bank loans of RMB488,926,000 (2013: RMB515,325,000) were secured by the pledge of property, plant and equipment with a net book amount of RMB412,278,000 (2013: RMB500,305,000), the pledge of prepaid land lease payments with a net book amount of RMB20,246,000 (2013: RMB20,909,000) and the pledge of trade receivables by RMB80,521,000 (2013: RMB178,864,000) as of December 31, 2014. The Group has to comply with certain restrictive financial covenants for bank loan denominated in US dollars.

The effective interest rates of our bank loans per annum were 2.2% to 7.8% and 2.2% to 8.2% as of December 31, 2014 and December 31, 2013 respectively.

Please refer to note 25 to the audited financial statements for more details of our bank loans as of December 31, 2014.

OTHER PAYABLES AND ACCRUALS

Other payables and accruals balance of RMB561,199,000 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, 2014 and 2013.

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

Save as otherwise disclosed, there were no significant investments held, material acquisitions, or disposals of subsidiaries during 2014. 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, 2014, except for the capital expenditures as mentioned on page 12 of this report.

CHARGES ON ASSETS

As of December 31, 2014, the Group had pledged RMB513,045,000 (2013: RMB700,078,000) of our Group's assets in order to secure banking facilities or bank loans, which were used to finance daily business operation, and RMB44,735,000 (2013: RMB68,456,000) of Group's bank balances for issuance of notes payable, letters of guarantee and letters of credit.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

As at December 31, 2014, 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 significant related party transactions during 2014 and 2013.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As of December 31, 2014, the Group did not have any off-statement of financial position arrangements.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.21 OF CHAPTER 13 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (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 event constitutes an event of default:

(i) Kemy Holding Inc. ("Kemy Holding"), the Company's controlling shareholder, ceases to legally and beneficially own at least 30.0% of the issued shares of the Company.

(ii) Mr. Zhao Bing, the Company's controlling shareholder, ceases to legally and beneficially own at least 75.0% of the issued shares of Kemy Holding.

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

EMPLOYEES AND STAFF COSTS

As at December 31, 2014, the Group had 1,211 employees (2013: 769 employees).

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

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

OUTLOOK

2015 will be a year of opportunities and challenges for the Group.

Two telecom operators have received 4G mobile network licenses, and announced their intention to raise related capital investments. However, recent purchase orders coming from these operators show that procurement of fiber-to-the-home related equipment may see a slowdown. Accordingly, the Group will proceed to adjust our product mix and continue to implement our vertical integration strategy as follows:

1. Continue upstream integration: by expanding production capacity of our ceramic ferrules processing facilities in Canada in order to continue to enhance overall gross profit margin.

2. Develop downstream construction and operation of broadband Internet business: near the end of 2014, China's MIIT issued a new regulation allowing private enterprises to build and operate China's broadband access networks. The Group will ride on the opportunity from the government's policy on backing private enterprises to enter into the telecommunications sector, and continue our expansion in this new business on construction and operation of broadband Internet infrastructure, and growing our revenue from this new business model of broadband Internet operation revenue sharing.

We will continue to increase our investments in technology, together with Shanghai Jiao Tong University-Net Miles Joint Laboratory for Optical Interconnection Technology, and Advanced Photonics, Inc. of Japan to continue to develop Active Optical Cable ("AOC") products with data transmission rates of 40G, 56G, and 100G as well as other high speed advanced products for interconnections between printed circuit boards and between integrated circuit chips. We will continue to actively develop applications of AOC products used in data centers and high-performance computers with high-speed and large-capacity interconnections in China, and expand into international markets.

We expect that through these efforts, we can expand the proportion of the Group's revenue on the construction and operation of broadband Internet infrastructure, and lay the foundation to ultimately transform into a high-speed broadband Internet professional operator.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's independent auditors the annual results and the accounting principles and practices adopted by the Group and discussed with them the internal control and financial reporting matters including the review of the Group's consolidated financial statements for the year.

EXECUTIVE DIRECTORS

Mr. Zhao Bing, aged 44, has been the chairman and an executive director of the Company since September 27, 2007 and a member of the remuneration committee of the Board and the Nomination Committee of the Board since March 18, 2012. Mr. Zhao is primarily responsible for the overall strategic planning and general management of the 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 the 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 joining Sifang Telecom in 1999, Mr. Zhao 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 the Beijing University of Posts and Telecommunications in 1994.

Mr. Meng Yuxiao, aged 51, has been an executive director since February 28, 2008. Mr. Meng is in charge of overseas sales, financing and capital operations of the Company, and assists in the strategic planning, operations and management of the 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 the Group, 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 14 years of experience in overseas sales, financing and management. Mr. Meng obtained a bachelor's degree in metallurgy material from the Hebei University of Science and Technology in 1986.

Mr. Deng Xuejun, aged 47, has been an executive director since March 16, 2010. Mr. Deng joined Sifang Telecom in 2004 and has served as a vice general manager of Sifang Telecom since September 2004. Mr. Deng oversees the production, sales and marketing matters of Sifang Telecom. Mr. Deng has over 14 years of experience in sales and marketing and management. Mr. Deng served as a general manager of 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 49, has served as an executive director, the chief financial officer and the company secretary of the Company and a member of the corporate governance committee of the Board since May 1, 2010. Mr. Hung is responsible for the Group's corporate finance and investor relations.

Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, a member of the Hong Kong Securities and Investment Institute ("HKSI"), vice chairman of the Hong Kong Investor Relations Association and a council member of The Hong Kong Institute of Directors. Mr. Hung holds an MBA degree from the University of London, a bachelor's degree of science in accounting and a certificate in programming and data processing from the University of Southern California, United States. Mr. Hung also obtained a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Specialist Certificate in Corporate Finance from the HKSI. Mr. Hung is currently also an independent non-executive director of Zhongyu Gas Holdings Limited (stock code: 3633) and China Shineway Pharmaceutical Group Limited (stock code: 2877).

Mr. Xia Ni, aged 44, has been the vice president and an executive director of the Company since September 1, 2010 and April 1, 2012, respectively. Mr. Xia is primarily responsible for the Company's corporate finance and manage Shanghai Net Miles Fiber Optics Technology Co., Ltd.. Mr. Xia joined Sifang Telecom in August 2009 and served as the assistant to the chairman of Sifang Telecom. Mr. Xia has approximately 21 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. Mr. Xia received a bachelor's degree majoring in automotive engineering from the Shanghai University of Engineering Science in 1993 and a master's degree in management from the Shanghai University of Finance and Economics in 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shi Cuiming, aged 75, has been an independent non-executive director and chairman of the nomination committee and the remuneration committee of the Board and a member of each of the audit committee and the corporate governance committee of the Board 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, a 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 61, has been an independent non-executive director and chairman of the audit committee and the corporate governance committee of the Board since June 3, 2011. Dr. Ma received a Doctor of Philosophy in Business Administration from the 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 the Hong Kong Polytechnic, now the 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 the principal consultant of Wellon Consultants Limited. Dr. Ma also served as an independent non-executive director of Genvon Group Limited (stock code 2389), from September 2008 to September 2014, and China Aoyuan Property Group Limited (stock code 3883), from September 2007 to July 2013, both 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.

Dr. Lui Pan, aged 60, has been an independent non-executive director and a member of the audit committee and the remuneration committee of the Board since June 3, 2011. Dr. Lui has approximately 34 years of experience in the high technology and information technology industries and possesses extensive knowledge in developing technologies and formulating business and market strategies. Dr. Lui 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. Dr. Lui was an executive director of DVN (Holdings) Limited, now known as Frontier Services Group Limited (stock code 500), from 1999 to 2012.

Dr. Xu Wanqiang, aged 49, was appointed as an independent non-executive director of the Company on May 29, 2014 and is a professor and doctoral supervisor. Dr. Xu holds a doctoral degree in management from the School of Management of Huazhong University of Science and Technology. He is currently a Director of the Department of Public Administration under the College of Public Administration, Deputy Executive Director of the Research Center of Independent Innovation and Technology Rewards of the Huazhong University of Science and Technology where he mainly engages in strategic policy and the management of technologies, economic and social organization and administration innovative research of government. Dr. Xu was in charge of over 20 projects for the National Social Science Fund, China Association for Science and Technology, Ministry of Railways, China National Soft Science Key Projects, and Social Science Fund of Hubei Province, together with dozens of other academic research projects. He is an in-house expert of telecommunication for the National Natural Science Foundation of China, National Social Sciences Foundation, and Research Fund in Humanities and Social Sciences of the Ministry of Education. Dr. Xu is also a specialist in the establishment of expert library under public cultural service system in Hubei Province.

Prof. Jiang Desheng, aged 65, was appointed as an independent non-executive director of the Company on May 29, 2014 and is a renowned specialist in optical fiber and sensing materials and sensing technologies in China and an Academician of the Chinese Academy of Engineering. He is currently a chair professor and doctoral supervisor of the Wuhan University of Technology, a director of Chinese Materials Research Society, and a member of the International Society for Optical Engineering and the Optical Society of America.

Prof. Jiang studied nonlinear optic application in the University of Angers in France as a visiting scholar in 1985. Since 1990, he has been appointed as a director of Research Center of Optical Fiber and Sensing Technologies and the National Lab of Optical Fiber and Sensing Technologies of the Wuhan University of Technology.

Prof. Jiang has been engaging in the research and commercialization of optoelectronic materials and components as well as optical fiber and sensing technologies in particular on the breakthrough in preparation of optical fiber and sensing materials, high precision processing of optical fiber sensors and key technologies and equipment for industrial production. Prof. Jiang established the one and only industrialization laboratory in China undergoing commercialization on optical fiber and sensing technologies which had been applied on many major projects in various area of the country. His achievements in research and development include a State Technological Invention Award (Second Class), two State Technological Advancement Award (Second Class), a State Technological Advancement Award (Third Class) and three National Scientific Advancement Award (First Class).

In December 2007, he was elected as an Academician of the Chinese Academy of Engineering. In April 2009, Prof. Jiang was awarded Technological Award for Substantial Contribution, which is the highest award in Wuhan, for his contributions in respect of research and commercialization on optical fiber and sensing technologies. In 2010 Hubei Government granted Prof. Jiang the highest technology award of Hubei, namely Scientific and Technological Award for Outstanding Contributions.

SENIOR MANAGEMENT

Mr. Zhang Yonglu, aged 58, 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. Mr. Zhang 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, the PRC 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 50, 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. Mr. Han has approximately 13 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 the Zhengzhou Textile Institute, now known as the Zhongyuan College of Technology in 1984.

Mr. Liu Dehui, aged 57, 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 a director since 2011. Mr. Liu possesses over 13 years of management experience. Prior to joining Sifang Telecom, Mr. Liu served as a director of Hebei Province Oceanic Administration from 1995 to 2000. Mr. Liu received a bachelor's degree in engineering from the Ordnance Engineering College in China in 1987.

Mr. Zhang Aimin, aged 40, 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 16 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 the 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 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

The Company has complied with the code provisions of the Corporate Governance Code ("Code Provision(s)") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of the Directors subsequent to the date of the 2013 Annual Report of the Company issued in April 2014 are set out below:

Dr. Xu Wanqiang and Prof. Jiang Desheng were appointed as independent non-executive director of the Company with effect from the conclusion of the annual general meeting (the "AGM") held on May 29, 2014.

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 the year ended December 31, 2014 (the "Year") and has delegated to these Board committees various responsibilities set out in their written 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 of the Company (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.

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 meets 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 with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules (the "Model Code") and compliance manual applicable to the Directors and employees of the group.

As at December 31, 2014 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 and the member of Remuneration Committee, and Nomination Committee)*
Mr. Meng Yuxiao	
Mr. Deng Xuejun	
Mr. Hung, Randy King Kuen	*(Chief Financial Officer, Company Secretary and Member of the Corporate Governance Committee)*
Mr. Xia Ni	

Independent Non-executive Directors (the "INEDs")

Mr. Shi Cuiming	*(Chairman of the Remuneration Committee and the Nomination Committee; and a member of each of the Audit Committee and the Corporate Governance Committee)*
Dr. Ma Kwai Yuen	*(Chairman of the Audit Committee and the Corporate Governance Committee and a member of the Nomination Committee)*
Dr. Lui Pan	*(member of the Audit Committee and the Remuneration Committee)*
Dr. Xu Wanqiang (appointed on May 29, 2014)	
Prof. Jiang Desheng (appointed on May 29, 2014)	

There was no financial, business, family or other material relationship among the Directors.

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 19 to 22.

Currently, the Company has five INEDs representing more than one-third of the Board. One of the five INEDs have the appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. Most 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 in writing from all 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.

Chairman and Chief Executive Officer

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

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

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

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

Furthermore, all major decisions are to be made in consultation with members of the Board as a whole, and appropriate Board committees. There are five 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.

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 "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.

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 Articles of Association.

All Directors appointed to fill a casual vacancy should be subject to re-election by shareholders at the next following AGM after their appointment and every Director, should be subject to retirement by rotation in accordance with the 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.

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 the company secretary of a number of other Hong Kong listed companies since December 1999.

The Board is responsible to approve the selection, appointment or dismissal of the Company Secretary, who 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.

Directors' Training and Professional Development

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

Monthly updates on the Group's business, activities and events are provided to all members of the Board to facilitate them in discharging their duties.

In order to ensure that the Directors could contribute to the Board with comprehensive and relevant information and to develop and refresh their knowledge and skills, the Company has regularly provided training information, encouraged and funded suitable trainings/seminars for Directors to participate in continuous professional developments.

During the Year, the Directors namely Mr. Hung, Randy King Kuen, Mr. Xia Ni and Dr. Ma Kwai Yuen had participated in appropriate continuous professional development activities by ways of attending seminars regarding directors' role, duties and responsibilities or updated Listing Rules; and Mr. Zhao Bing, Mr. Meng Yuxiao, Mr. Deng Xuejun, Mr. Shi Cuiming, Dr. Lui Pan, Dr. Xu Wanqiang and Prof. Jiang Desheng had read materials relevant to the directors' duties and responsibilities. The Company also continuously updates the Directors on the latest developments regarding the Listing Rules and applicable regulatory requirements to ensure compliance with and enhance their awareness of good corporate governance practices.

Directors' Securities Transactions

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code contained in Appendix 10 of the Listing Rules. The Company has made specific enquiry on all Directors and all of them have confirmed compliance with the required standard as set out in the Model Code throughout the Year. The interests held by individual Directors in the Company's securities at December 31, 2014 are set out in the Directors' Report on page 44 to 45.

Indemnification of Directors and Officers

The Directors and Officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding office as the Directors and Officers of the Company. The Directors and Officers will not be indemnified where there is any fraud, breach of duty or breach of trust proven against them.

Board Diversity Policy

The Board has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board.

The Company recognizes that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company also takes into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, working experience and ethnicity to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee reviews the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time. The Board Diversity Policy is posted on the website of the Company.

BOARD AND BOARD COMMITTEES MEETINGS

Number of Meetings and Directors' Attendance

The Company held four full Board meetings in the Year. The attendance records of each Director at the Board and Board committees meetings are set out below:

Name of Directors	Board Meetings	Audit Committee Meetings	Corporate Governance Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
	Number of meetings attended/ Total number of meetings held				
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 the Remuneration Committee/Chairman of the Nomination Committee)*	4/4	4/4	4/4	1/1	1/1
Dr. Ma Kwai Yuen *(Chairman of the Audit Committee/ Chairman of the Corporate Governance Committee)*	4/4	4/4	4/4	–	1/1
Dr. Lui Pan	4/4	4/4	–	1/1	–
Dr. Xu Wanqiang (appointed on May 29, 2014)	2/2	–	–	–	–
Prof. Jiang Desheng (appointed on May 29, 2014)	2/2	–	–	–	–

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 Board 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 Board 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 Board 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.

When necessary, the senior management attends regular Board, Board committee and other 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 Board 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.

FIVE HIGHEST PAID INDIVIDUALS AND EMOLUMENTS OF SENIOR MANAGEMENT

(a) Five highest paid individuals

The five highest paid individuals of the Group for the Year included two Directors (2013: three), whose emoluments are disclosed in note 7 to the consolidated financial statements.

(b) Emoluments of senior management

Other than the emoluments of Directors and five highest paid individuals disclosed in note 7 to the consolidated 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)	**2014** Number of individuals	2013 Number of individuals
1,000,001–2,000,000	**4**	4
Total	**4**	4

BOARD COMMITTEES

The Board has established four Board 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.

All members of the Audit Committee are INEDs and the majority of the members of each of the other Board committee are also 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 Corporate Governance Committee comprises three members, namely Dr. Ma Kwai Yuen, Mr. Shi Cuiming and Mr. Hung, Randy King Kuen. The 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 of the group.

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 accounting and other matters.

6) To review the Company's compliance with the CG 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 during the Year. One meeting was held during the period from January 1, 2015 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 to the Listing Rules to ensure that these amendments are complied with by the Company.

AUDIT COMMITTEE

The Audit Committee comprises 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 the associated procedures.

The Audit Committee had reviewed the Group's interim and annual results for the year ended December 31, 2014, including the accounting principles and practices adopted by the Company, in conjunction with the Company's external auditors and the management. 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 and re-appointment of the external auditors of the Company for the Year and 2015.

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

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely Mr. Shi Cuiming, Dr. Ma Kwai Yuen and Mr. Zhao Bing. The 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 the INEDs;

4) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for the Directors, in particular the chairman and the chief executive; and

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 39 for a summary of their work during the Year.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely Mr. Zhao Bing, Mr. Shi Cuiming and Dr. Lui Pan. The 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 determine the specific remuneration packages of all executive 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 also reviews the share options scheme from time to time.

Details of the remuneration of the Directors for the Year are set out in note 7 to the consolidated financial statements.

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

RISK MANAGEMENT

Strategic Planning

The management of the Company under the leadership of the Board started formulating a Five-Year Strategic Plan (the "Five-Year Plan") in the fourth quarter of 2011.

During the Year, a number of strategic action plans were developed, executed and 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 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 the ownership of and accountability towards their relevant risk assessment and management processes.

The Audit Committee is 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 the 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 of the Company to its 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 any 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 publications and the compliance with applicable laws, rules and regulations.

During the Year, the Board had conducted a review of the effectiveness of the Group's internal control systems which 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 Company'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.

The Board is responsible for overseeing the preparation of the 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.

During the Year, the Company provides all Directors with monthly updates giving a balanced and understandable assessment of its 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 51 and 52.

External Auditors' Remuneration

The total fees in relation to the audit and other services provided by Ernst & Young, the external auditors of the Company, for the Year amounted to RMB3,700,000 (2013: RMB3,300,000).

Services rendered for the Company	Fee paid and payable	
	2014	2013
	RMB	*RMB*
Audit services	**2,600,000**	2,300,000
Other services, including the review of interim financial statements	**1,100,000**	1,000,000
Total	**3,700,000**	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 have been formulated to enable the systematic, timely and uniform reporting of incidents such as potential fraud.

MODEL CODE FOR SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES

To comply with the Code Provision A.6.4 of the CG Code, the Company has 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/inside 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 during the Year.

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, Chapter 571 of the laws of Hong Kong 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 of Hong Kong.

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 and interim reports as well as circulars 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 has held regular briefings, attended investor conferences and participated in roadshows to meet institutional investors and financial analysts in China, Hong Kong and overseas countries to keep them abreast of the Company's business and development.

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, Nomination and Corporate Governance Committees and the external auditor also attend the AGM to answer questions from shareholders.

AGM proceedings are reviewed from time to time to ensure that the Company follows the 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 of Association 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.

Procedures for Shareholders to Send Enquires to the Board

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.

Procedures for Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing Shareholders to make proposals or move resolutions at the general meeting under the memorandum of association of the Company (the "M&A") and the Articles of Association or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting (the "EGM") to do so in accordance with the "Procedures for Shareholders to convene an EGM" set out below.

Procedures for Shareholders to Convene an EGM

Shareholder(s) holding not less than one-tenth of the paid up capital of the Company, which carries the right of voting at general meetings of the Company can make a written requisition to the Board or the Company Secretary to require an EGM to be called pursuant to article 12.3 of the Articles of Association. The written requisition shall specify the business to be transacted in the meeting, must be signed by the requisitionist and shall be deposited at the Company's address stated 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, an Executive Director, to whom shareholders and potential investors can put forward their inquiries and proposals for shareholders meetings to the Board. The contact information of Mr. Hung is posted on the Company's website. Shareholders can also write their enquiries and proposals for shareholders meetings to the Company's address stated on page 5 of this annual report.

The AGM for the year ended December 31, 2013 was held on May 29, 2014. The attendance record of the Directors (as at the date of this Corporate Governance Report) 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	1/1
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
Dr. Xu Wanqiang (appointed on May 29, 2014)	N/A
Prof. Jiang Desheng (appointed on May 29, 2014)	N/A

CONSTITUTIONAL DOCUMENTS

There was no change to the M&A during the Year. A copy of the latest consolidated version of the M&A is posted on the respective websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. The Company is 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 current practices on the basis of our experience, regulatory changes and developments.

Any views and suggestions from our shareholders to promote our transparency and accountability 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 30, 2015

Audit Committee Report

Dear Shareholders,

The Audit Committee formally met four times from January 1, 2014 to December 31, 2014, and once from January 1, 2015 to the date of this report. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditors' 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; and review the external auditors' management letter and management's response.

The Audit Committee has recommended the Board to re-appoint Ernst & Young as the external auditor for the fiscal year 2015 and to approve the interim and annual results of 2014.

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 30, 2015

Nomination Committee Report

Dear Shareholders,

The Group's Nomination Committee is responsible for reviewing the structure, size and composition, including the skills, knowledge and experience, of the Board on a regular basis and making 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 and senior executives of the Company and succession planning for directors in particular the Executive Directors and senior executives. Majority members of the Nomination Committee are INEDs. It is chaired by Mr. Shi Cuiming with two other members, namely Dr. Ma Kwai Yuen and Mr. Zhao Bing.

During the year ended December 31, 2014, the Nomination Committee held a meeting for an annual review of the current Board structure, assessment of the independence of the INEDs, reviewing the Nomination Committee's procedural rules, reviewing the Board Diversity Policy and the re-election of Mr. Zhao Bing, Mr. Xia Ni, Mr. Hung, Randy King Kuen, Dr. Xu Wanqiang and Prof. Jiang Desheng as Directors by Shareholders at the 2015 annual general meeting of the Company.

MEMBERS OF NOMINATION COMMITTEE

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

Mr. Shi Cuiming
Chairman
Nomination Committee

Hong Kong, March 30, 2015

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 of the Company, assess the performance of directors and evaluate and make recommendations on remuneration packages on the Directors and senior management.

The Remuneration Committee held a meeting in 2014 in which it reviewed 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 104 to 107 of this annual report.

MEMBERS OF REMUNERATION COMMITTEE

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

Mr. Shi Cuiming
Chairman
Remuneration Committee

Hong Kong, March 30, 2015

Dear Shareholders,

The Board is pleased to present to the shareholders of the Company (the "Shareholders") this annual report and the audited consolidated financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are manufacture and sale of a full spectrum of active and prime optical interconnection equipment.

FINANCIAL STATEMENTS

The results of the Group for the Year, 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 53 of this annual report.

DIVIDEND AND BONUS ISSUE OF SHARES

The directors do not recommend the payment of cash dividend for the year ended 31 December 2014 but propose to make a bonus issue of two new shares credited as fully paid for every ten existing shares held to the shareholders of the Company whose names appear on the registers of members on July 10, 2015. The necessary resolution will be proposed at the forthcoming annual general meeting to be held on June 23, 2015 (the "AGM"), and if passed and obtained the approval from the Listing Committee of the Stock Exchange for granting of listing and permission to deal in the bonus shares, share certificates of the bonus issue will be posted on or about July 17, 2015.

As a result of such bonus issue, the exercise price and/or the number of shares to be issued pursuant to the outstanding unexercised share options granted and vested under the Company's option schemes may be adjusted accordingly.

Further information of the Bonus Issue will be set out in a circular for dispatch by the Company to the shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

2015 Annual General Meeting

The register of members of the Company will be closed from Wednesday, June 17, 2015 to Tuesday, June 23, 2015, 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 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 Tuesday, June 16, 2015.

Proposed Issue of Bonus Shares

The register of members of the Company will be closed from Monday, July 6, 2015 to Friday, July 10, 2015, both dates inclusive, during which period no transfer of shares will be registered. In order to ascertain shareholders' entitlement to the proposed issue of bonus shares, 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 Friday, July 3, 2015.

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 10, 2014, 291,000,000 ordinary shares of the Company (the "Shares") were issued through a placing agent at a price of HK$2.42 per share to not less than six placees. As regards the use of proceeds, please refer to Management Discussion and Analysis for details.

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 27 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 56 of this annual report and note 29 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

At December 31, 2014, the Company's reserves available for distribution amounted to RMB97,693,000.

In addition, under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company of RMB1,066,879,000 is available for distribution or paying dividends to Shareholders subject to the provisions of its memorandum of association and articles of association of the Company (the "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.

CHARITABLE DONATION

During the year, the Group made charitable and other donations amounting to approximately RMB1,000,000 (2013: Nil).

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, 2014 amounted to RMB694,473,000 (2013: RMB569,478,000). Particulars of interest-bearing bank loans are set out in note 25 to the consolidated financial statements.

DIRECTORS

The Directors who held office during the Year and up to the date of this report were:

Executive Directors:

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

Independent Non-executive Directors:

Mr. Shi Cuiming
Dr. Ma Kwai Yuen
Dr. Lui Pan
Dr. Xu Wanqiang (appointed on May 29, 2014)
Prof. Jiang Desheng (appointed on May 29, 2014)

In accordance with Article 16.3 of the Articles of Association, Dr. Xu Wanqiang and Prof. Jiang Desheng shall retire at the AGM and being eligible, both of them have offered themselves for re-election.

In accordance with Article 16.18 of the Articles of Association, Mr. Zhao Bing, Mr. Xia Ni and Mr. Hung, Randy King Kuen will retire by rotation and, being eligible, have offered themselves for re-election at the AGM.

The biographical details of the Directors are set out on page 19 to page 21 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years. Each of the INEDs has been appointed for an initial term of three years. The appointments of all Directors are subject to retirement by rotation in accordance with the Articles of Association.

Other than disclosed above, none of the Directors has entered into or has proposed to enter into any service contract with the Company or any of its subsidiaries, which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

Details of the Directors' emoluments on a named basis are set out in note 7 to the consolidated financial statements on page 84 of this annual report.

DIRECTORS' AND SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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 or controlling shareholder 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.

INTERESTS IN SHARES

As at December 31, 2014, disclosure of interests required under section 352 of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) (the "SFO") and the Model Codes as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange is as follows:

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at December 31, 2014, the interests or short positions of Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) required: (a) 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 they are taken or deemed to have under such provisions of the SFO); (b) or pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the shares, underlying shares and debentures

Name of Director/ Chief Executive	Company/name of associated company	Capacity/ Natural of interest	Number of shares	Number of underlying shares[3]	Aggregate interest	Approximate percentage of interest
Mr. Zhao Bing	the Company	Interest of controlled corporation	536,347,012[1]	–	536,347,012	30.72%
	Kemy Holding	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	0.69%
Mr. Deng Xuejun	the Company	Beneficial interest	–	12,000,000	12,000,000	0.69%
Mr. Hung, Randy King Kuen	the Company	Interest of a controlled corporation	2,000,000[2]	–	–	–
		Beneficial interest	3,000,000	12,000,000	17,000,000	0.97%
	Monitronix Limited ("Monitronix")	Beneficial interest	10 shares of HK$1.00 each	–	–	50.00%
Mr. Xia Ni	the Company	Beneficial interest	200,000	12,000,000	12,200,000	0.70%
Mr. Shi Cuiming	the Company	Beneficial interest	110,000	500,000	610,000	0.03%
Dr. Ma Kwai Yuen	the Company	Beneficial interest	500,000	500,000	1,000,000	0.06%
Dr. Lui Pan	the Company	Beneficial interest	–	500,000	500,000	0.03%

Notes:

1. These Shares are registered in the name of Kemy Holding, the entire issued share capital of which is legally and beneficially owned as to 79% by Mr. Zhao Bing (an Executive Director and the Chairman), 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, therefore, deemed to be interested in all the Shares held by Kemy Holding.

2. These Shares are registered in the name of Monitronix. Mr. Hung, Randy King Kuen is legally and beneficially owned as to 50% of the issued share capital of Monitronix. Mr. Hung, Randy King Kuen is, therefore, deemed to be interested in all the Shares held by Monitronix.

3. Details of the underlying shares of the Company comprised in the share options held by Directors are shown in the section of "Share Option Schemes" below.

4. The Company's shares referred to above are ordinary shares of US$0.001 each.

(b) Substantial shareholders' and other persons' interests and short positions in shares, underlying shares and debentures

Long positions in the shares and underlying shares

As at December 31, 2014, the interests and short positions of the Shareholders (other than a Director or the chief executive of the Company) in the 5% or more of shares and underlying shares of the Company as recorded in the register required to be kept and would fall to be disclosed under Division 2 and 3 of Part XV of section 336 of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Interest in shares	Percentage of issued Share
Kemy Holding	Beneficial owner	536,347,012	30.72%

Note: These Shares are registered in the name of Kemy Holding, the entire issued share capital of which is legally and beneficially owned as to 79% by Mr. Zhao Bing (an Executive Director and the Chairman), 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 Holding.

CONFIRMATION OF NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

Kemy Holding and Mr. Zhao Bing (an Executive Director and the Chairman), the Company's controlling shareholders and Ms. Shi Shuran (collectively the "Covenantors") entered into a non-competition Deed (the "Deed", reference to the Company's listing prospectus dated June 16, 2011) with the Company on June 13, 2011. The Company is able to confirm as follows:

i. The Covenantors have complied with the Deed for the Year.

ii. In order to ensure that the Covenantors complied with the Deed for the Year, the Company and the Board had requested and the Covenantors have given a written confirmation on their compliance with the non-competition undertakings under the Deed (the "Undertakings").

iii. The Board was not aware of any matters regarding the non-compliance with the Undertakings.

iv. The INEDs have reviewed, in light of the information available to them, whether the Covenantors have fully complied with the Undertakings stipulated in the Deed for the Year. Having made all reasonable inquiries, they were satisfied that the Covenantors had complied with the Deed.

v. There has not been any change in the terms of the Undertakings under the Deed since the Company's listing on the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed above, none of the Directors has an interest in any business constituting a competing business to the Company.

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 "Pre-IPO Share Option Scheme" and the "Share Option Scheme", respectively).

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 shares under the initial public offer for options granted under the Pre-IPO Option Scheme. A summary of the principal terms and conditions of the Pre-IPO Share Option Scheme and the 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.

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 towards enhancing the Group's value.

Details of the movements in the options granted to the Directors under the Pre-IPO Share Option Scheme for the Year are as follows:

Directors	Date of Grant *(Note)*	Exercise price per Share *HK$*	As at January 1, 2014	Granted during the Year	Exercised during the Year	Lapsed during the year	Cancelled during the Year	As at December 31, 2014	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 purpose.

Details of movements in the options granted under the Share Option Scheme for the Year are as follows:

Category	Date of Grant	Exercise price per Share *HK$*	As at January 1, 2014	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at December 31, 2014	Exercise period *(Note)*
Directors 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

Details of the Pre-IPO Share Option Scheme and Share Option Schemes of the Company as at December 31, 2014 are set out in note 28 to the consolidated financial statements.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of the Shares or any shares in other body corporate.

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	34.5%	
Five largest customers in aggregate	61.1%	
The largest supplier		31.0%
Five largest suppliers in aggregate		75.0%

According to the records of the Company, the Directors, their close associates or any Shareholder (which to the knowledge of the Directors own more than 5.0% 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 and 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, qualifications 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 Year are also disclosed in note 7 to the consolidated financial statements.

There was no compensation paid during the Year or receivable by the Directors or the 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 INED an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of them 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, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the 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 (i.e. at least 25% of the Company's issued shares being in the public hands) throughout the Year and up to the date of this report 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 consolidated financial statements for the Year.

CORPORATE GOVERNANCE

A report on the principal Corporate Governance practices adopted by the Company is set out in "Corporate Governance Report" on page 23 to page 37 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to the resolution at the board of directors' meeting held on March 30, 2015, a bonus issue of share was recommended on the basis of two new ordinary shares of US$0.001 for every ten existing shares held by the shareholders of the Company. The bonus shares will be credited as fully paid by way of capitalisation of an amount equal to the total par value of the bonus shares in the share premium account of the Company.

Save as disclosed above, as at the date of approval of the financial statements, the Group has no event after the reporting period that needs to be disclosed.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On August 28, 2014, the Company entered into an agreement to place up to 291,000,000 of its new shares to not less than six independent placees at a price of HK$2.42 per share. The gross proceeds from the placing amounted to approximately HK$704,220,000. The net proceeds, after the deduction of the placing commission and other related expenses, was approximately HK$675,839,442. The placing was completed on September 10, 2014. 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, the Company made the following repurchases of HK$11,795,000 (2013: Nil) its own shares on the Stock Exchange as follows:

Month in 2014	Number of Shares repurchased	Purchase price per share Highest	Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
May	2,300,000	1.93	1.80	4,232,000
December	3,588,000	2.13	2.06	7,563,000
				11,795,000

The above repurchased shares were subsequently cancelled on June 4, 2014 and February 27, 2015, respectively. Accordingly, the issued share capital of the Company was divided by the nominal value thereof. The premium payable on repurchase was charged against the above premium account.

The repurchase of the Company as above during the Year was effected by the Board, pursuant to the mandate from shareholders, with a view of benefiting shareholders as a whole by enlacing the net asset value and earnings per share of the Group.

Save as disclosed above, the Company did not redeem any of its Shares listed on the Main Board of the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares during the Year.

INDEPENDENT AUDITORS

During the Year, Ernst & Young was appointed as the independent auditors of the Company. As proposed by the Board upon the recommendation of the Audit Committee, a resolution will be submitted to the AGM to re-appoint Messrs. Ernst & Young as the independent auditors of the Company for the ensuing year.

On behalf of the Board
Zhao Bing
Chairman

Hong Kong, March 30, 2015

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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 53 to 116, which comprise the consolidated and company statements of financial position as of December 31, 2014, 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, 2014, 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 30, 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	4	**2,208,885**	1,775,790
Cost of sales		**(1,531,384)**	(1,261,045)
Gross profit		**677,501**	514,745
Other income	5	**19,700**	11,115
Selling and distribution expenses		**(16,143)**	(10,537)
Administrative expenses		**(110,302)**	(75,816)
Other expenses		**(5,651)**	(3,114)
Finance costs	6	**(40,240)**	(34,888)
PROFIT BEFORE TAX	6	**524,865**	401,505
Income tax expense	8	**(99,754)**	(68,972)
PROFIT FOR THE YEAR	9	**425,111**	332,533
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation		**(3,659)**	(1,880)
Total comprehensive income for the year attributable to owners of the Company		**421,452**	330,653
Earnings per share attributable to ordinary equity holders of the Company:			
Basic	10	**RMB0.275**	RMB0.260
Diluted	10	**RMB0.267**	RMB0.260

Details of the dividends proposed for the year ended December 31, 2014 are disclosed in note 30 to the financial statements.

Consolidated Statement of Financial Position

December 31, 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,088,820**	1,007,789
Prepaid land lease payments	12	**24,210**	24,829
Payments in advance	13	**127,096**	278
Goodwill	15	**15,563**	15,563
Available-for-sale investment	16	**14,300**	–
Entrusted loan receivables	17	**–**	50,000
Deferred tax assets	18	**1,713**	4,720
Total non-current assets		**1,271,702**	1,103,179
CURRENT ASSETS			
Inventories	19	**121,785**	28,457
Trade and notes receivables	20	**2,196,746**	1,381,765
Prepayments, deposits and other receivables	21	**41,736**	116,539
Pledged bank balances	22	**44,735**	68,456
Cash and cash equivalents	22	**1,041,757**	769,259
Total current assets		**3,446,759**	2,364,476
CURRENT LIABILITIES			
Trade and notes payables	23	**294,429**	279,324
Other payables and accruals	24	**561,199**	432,875
Tax payable		**195,699**	135,660
Interest-bearing bank loans	25	**518,846**	403,399
Total current liabilities		**1,570,173**	1,251,258
NET CURRENT ASSETS		**1,876,586**	1,113,218
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,148,288**	2,216,397

Consolidated Statement of Financial Position

December 31, 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*25*	**175,627**	166,079
Deferred income	*26*	**16,304**	6,217
Deferred tax liabilities	*18*	**24,990**	16,584
Total non-current liabilities		**216,921**	188,880
Net assets		**2,931,367**	2,027,517
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*27*	**11,125**	9,346
Treasury shares	*27*	**(23)**	–
Reserves	*29*	**2,920,265**	1,960,883
Proposed final dividend	*30*	**–**	57,288
Total equity		**2,931,367**	2,027,517

Zhao Bing
Director

Meng Yuxiao
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2014

	Attributable to owners of the Company											
	Issued capital RMB'000 (note 27)	Treasury shares RMB'000 (note 27)	Share premium RMB'000 (note 29(a))	Statutory reserve fund RMB'000 (note 29(b))	Special reserve RMB'000 (note 29(c))	Share option reserve RMB'000 (note 29(e))	Capital contribution reserve RMB'000 (note 29(d))	Capital redemption reserve RMB'000	Foreign translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000
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	1,475	–	204,045	–	–	–	–	–	–	–	–	205,520
Share issue expenses	–	–	(4,128)	–	–	–	–	–	–	–	–	(4,128)
Equity-settled share option arrangements *(note 28)*	–	–	–	–	–	12,165	–	–	–	–	–	12,165
Final 2012 dividend declared *(note 30)*	–	–	–	–	–	–	–	–	–	–	(9,846)	(9,846)
Proposed final 2013 dividend *(note 30)*	–	–	–	–	–	–	–	–	–	(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
At January 1, 2014	9,346	–	540,123	102,060	59,906	19,605	62,825	–	(3,043)	1,179,407	57,288	2,027,517
Profit for the year	–	–	–	–	–	–	–	–	–	425,111	–	425,111
Other comprehensive income for the year:												
Exchange difference on foreign currency translation	–	–	–	–	–	–	–	–	(3,659)	–	–	(3,659)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(3,659)	425,111	–	421,452
Repurchase of shares *(note 27)*	(15)	(23)	(9,295)	–	–	–	–	15	–	(15)	–	(9,333)
Issue of shares *(note 27)*	1,794	–	556,337	–	–	–	–	–	–	–	–	558,131
Share issue expenses	–	–	(20,286)	–	–	–	–	–	–	–	–	(20,286)
Equity-settled share option arrangements *(note 28)*	–	–	–	–	–	11,174	–	–	–	–	–	11,174
Final 2013 dividend declared *(note 30)*	–	–	–	–	–	–	–	–	–	–	(57,288)	(57,288)
Transfer from/(to) reserves	–	–	–	37,743	–	–	–	–	–	(37,743)	–	–
At December 31, 2014	11,125	(23)	1,066,879*	139,803*	59,906*	30,779*	62,825*	15*	(6,702)*	1,566,760*	–	2,931,367

* These reserves accounts comprise the consolidated reserves of RMB2,920,265,000 (2013: RMB1,960,883,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**524,865**	401,505
Adjustments for:			
Depreciation	11	**85,484**	75,824
Amortization of prepaid land lease payments	12	**619**	619
Loss on disposal and write-off of items of property, plant and equipment	6	**4,264**	3,004
Interest on bank loans	6	**40,240**	34,888
Equity-settled share option expense	28	**11,174**	12,165
Interest income	5	**(16,271)**	(7,999)
Deferred income released	26	**(2,263)**	(1,080)
		648,112	518,926
Decrease/(increase) in inventories		**(93,328)**	8,246
Increase in trade and notes receivables		**(814,294)**	(540,782)
Decrease/(increase) in prepayments, deposits and other receivables		**74,803**	(90,735)
Increase in trade and notes payables		**15,105**	89,371
Increase in other payables and accruals		**118,413**	81,866
Cash generated from/(used in) operations		**(51,189)**	66,892
Interest paid		**(35,994)**	(34,598)
Interest received from bank balances and deposits		**12,999**	6,291
Income tax paid		**(28,302)**	(33,437)
Net cash flows from/(used in) operating activities		**(102,486)**	5,148
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received from entrusted loans		**3,272**	1,708
Purchases of items of property, plant and equipment		**(289,512)**	(288,733)
Purchase of an available-for-sale investment		**(14,300)**	–
Entrusted loans granted	17	**–**	(50,000)
Receipt of entrusted loans granted	17	**50,000**	–
Proceeds from disposal of items of property, plant and equipment		**–**	15,014
Increase in time deposits with original maturity of over three months when acquired		**(190,396)**	–
Decrease/(increase) in pledged bank balances		**23,721**	(64,588)
Receipt of government grants		**12,350**	3,570
Net cash flows used in investing activities		**(404,865)**	(383,029)

Consolidated Statement of Cash Flows

Year ended December 31, 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*27*	**558,131**	205,520
Share issue expenses		**(20,286)**	(4,128)
Payment for repurchase of ordinary shares		**(9,333)**	–
New bank loans		**457,106**	680,970
Repayment of bank loans		**(335,229)**	(520,267)
Dividends paid		**(57,288)**	(9,846)
Net cash flows from financing activities		**593,101**	352,249
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**85,750**	(25,632)
Cash and cash equivalents at beginning of year		**769,259**	795,823
Effect of foreign exchange rate changes, net		**(3,648)**	(932)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**851,361**	769,259
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**475,854**	395,003
Non-pledged time deposits		**565,903**	374,256
Cash and cash equivalents as stated in the consolidated statement of financial position	*22*	**1,041,757**	769,259
Non-pledged time deposits with original maturity of over three months when acquired	*22*	**(190,396)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**851,361**	769,259

Statement of Financial Position

December 31, 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Office equipment		**23**	32
Investments in subsidiaries	14	**543,376**	543,376
Due from subsidiaries	14	**260,298**	31,385
Total non-current assets		**803,697**	574,793
CURRENT ASSETS			
Due from subsidiaries	14	**73,789**	45,077
Dividend receivable		**15,172**	15,117
Prepayments and other receivables		**2,238**	912
Cash and cash equivalents	22	**508,199**	268,199
Total current assets		**599,398**	329,305
CURRENT LIABILITIES			
Interest-bearing bank loans	25	**57,588**	–
Other payables		**3,450**	1,941
Due to subsidiaries	14	**73,428**	73,162
Total current liabilities		**134,466**	75,103
NET CURRENT ASSETS		**464,932**	254,202
Net assets		**1,268,630**	828,995
EQUITY			
Issued capital	27	**11,125**	9,346
Treasury shares	27	**(23)**	–
Reserves	29	**1,257,528**	762,361
Proposed final dividend	30	**–**	57,288
Total equity		**1,268,630**	828,995

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 located at Office Suite 2001–02, 20th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Kemy Holding, 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 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 applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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, 2014. 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendment to IFRS 2 included in *Annual Improvements 2010–2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in *Annual Improvements 2010–2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]

[1] Effective from July 1, 2014

The adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[2]

1 Effective for annual periods beginning on or after July 1, 2014
2 Effective for annual periods beginning on or after January 1, 2016
3 Effective for annual periods beginning on or after January 1, 2017
4 Effective for annual periods beginning on or after January 1, 2018
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after January 1, 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from January 1, 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on January 1, 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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 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 pre-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); and

(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.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

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 are stated at cost less any impairment losses, and are 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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 recognize 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Income tax

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

Current tax assets and liabilities 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of any unused tax credits and unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(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").

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 28 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 except Canada is the United States dollar ("US$"). The functional currency of the subsidiary incorporated in Canada is the Canadian dollar ("CAD"). 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).

As of the end of the reporting period, the assets and liabilities of companies other than the PRC subsidiaries 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:

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, 2014 was RMB15,563,000 (2013: RMB15,563,000). Further details are given in note 15.

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, 2014 and 2013.

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, 2014 was RMB195,699,000 (2013: RMB135,660,000).

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

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.

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, 2014 was RMB1,088,820,000 (2013: RMB1,007,789,000).

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, 2014 was RMB1,713,000 (2013: RMB4,720,000). Further details are contained in note 18 to the financial statements.

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, 2014 was RMB121,785,000 (2013: RMB28,457,000).

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:

	2014		2013	
	RMB'000	**%**	*RMB'000*	%
Fiber optic patch cords	**1,620,847**	**73.4**	1,274,655	71.8
Connection and distribution product series	**425,038**	**19.2**	373,610	21.0
Equipment room accessories	**163,000**	**7.4**	127,525	7.2
	2,208,885	**100.0**	1,775,790	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.

	2014 RMB'000	2013 RMB'000
Domestic*:		
— Mainland China	**1,963,252**	1,550,208
Overseas:		
— New Zealand	**110,724**	165,713
— Australia	**80,504**	20,903
— United Kingdom	**54,405**	12,507
— Ireland	**–**	26,454
— Others	**–**	5
	245,633	225,582
	2,208,885	1,775,790

* 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 and certain fixed assets in Canada, all of the Group's non-current assets were located in Mainland China.

Information about major customers

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

	2014 RMB'000	2013 RMB'000
Customer A	**761,227**	432,023

5. OTHER INCOME

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

	2014 RMB'000	2013 RMB'000
Government grants*	**582**	1,100
Deferred income released *(note 26)*	**2,263**	1,080
Interest income	**16,271**	7,999
Rental income	**310**	874
Others	**274**	62
Total other income	**19,700**	11,115

* Various government grants have been received for awarding the Group's achievements and contributions. 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	2014 RMB'000	2013 RMB'000
Cost of inventories sold		**1,531,384**	1,261,045
Employee benefit expense (including directors' and chief executive's remuneration as set out in note 7):			
Wages and salaries		**27,672**	25,352
Equity-settled share option expense	*28*	**11,174**	12,165
Pension scheme contributions			
— Defined contribution fund		**4,725**	2,748
Housing fund			
— Defined contribution fund		**420**	562
Total employee benefit expense		**43,991**	40,827
Interest on bank loans wholly repayable within five years		**40,213**	34,866
Interest on other bank loans		**27**	22
Finance costs		**40,240**	34,888
Auditors' remuneration		**3,700**	3,300
Depreciation of items of property, plant and equipment	*11*	**85,484**	75,824
Amortization of prepaid land lease payments	*12*	**619**	619
Operating lease rentals in respect of buildings		**2,531**	711
Loss on disposal and write-off of items of property, plant and equipment		**4,264**	3,004
Donation		**1,000**	–
Foreign exchanges difference, net		**3,862**	2,565
Research and development costs		**23,718**	15,186

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014	2013
	RMB'000	*RMB'000*
Fees	**706**	527
Other emoluments:		
Salaries, allowances and benefits in kind	**4,049**	3,745
Equity-settled share option expense	**4,292**	5,520
Pension scheme contributions	**100**	73
	8,441	9,338
	9,147	9,865

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 28 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	Equity-settled share option expense	Total
	RMB'000	*RMB'000*	*RMB'000*
2014			
Mr. Shi Cuiming	**158**	**71**	**229**
Dr. Lui Pan	**158**	**71**	**229**
Dr. Ma Kwai Yuen	**206**	**71**	**277**
Dr. Xu Wanqiang	**92**	**–**	**92**
Prof. Jiang Desheng	**92**	**–**	**92**
	706	**213**	**919**
2013			
Mr. Shi Cuiming	160	68	228
Dr. Lui Pan	160	68	228
Dr. Ma Kwai Yuen	207	68	275
	527	204	731

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*
2014				
Zhao Bing	**964**	**–**	**8**	**972**
Meng Yuxiao	**863**	**792**	**20**	**1,675**
Hung, Randy King Kuen	**1,585**	**792**	**13**	**2,390**
Deng Xuejun	**124**	**792**	**46**	**962**
Xia Ni	**513**	**1,703**	**13**	**2,229**
	4,049	**4,079**	**100**	**8,228**
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

During the years ended December 31, 2014 and 2013, the Company did 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 two directors (2013: three), details of whose remuneration are set out in note 7(b) above. Details of the remuneration for the year of the remaining three (2013: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2014 **RMB'000**	2013 *RMB'000*
Salaries, allowances and benefits in kind	**430**	277
Equity-settled share option expense	**5,109**	3,288
	5,539	3,565

The remuneration of the above highest paid employees during the year and the prior year fell within the band of 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.

No provision for Canadian profits tax has been made as the Group had no taxable profits derived from or earned in Canada during the year.

The provision for PRC CIT is based on the CIT rate applicable to the subsidiaries 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:

	2014 **RMB'000**	2013 *RMB'000*
Current — Mainland China		
Charge for the year	**88,341**	65,863
Deferred *(note 18)*	**11,413**	3,109
Total tax charge for the year	**99,754**	68,972

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:

	2014 RMB'000	2013 RMB'000
Profit before tax	**524,865**	401,505
Tax at the applicable tax rate of 15%	**79,287**	60,226
Tax at the applicable tax rate of 25%	**(929)**	–
Effect of withholding tax at 10% on the distributable profit of Sifang Telecom (note 18)	**8,406**	5,382
Effect of change in tax rate on opening deferred tax	**1,888**	1,631
Tax losses not recognized	**2,197**	–
Expenses not deductible for tax	**8,905**	1,733
Tax charge at the Group's effective tax rate	**99,754**	68,972

Except for Sifang Telecom which is entitled to a preferential CIT rate of 15% (2013: 15%), the PRC subsidiaries are subject to the PRC CIT rate at 25% during the year (2013: Not applicable).

In 2011, Sifang Telecom was identified as a high and new technology enterprise and is entitled to a preferential CIT rate of 15% for three years commencing from January 1, 2011. During the year, Sifang Telecom successfully renewed the high and new technology enterprise certificate which will be valid for three years and expire in September 2017.

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

9. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year includes a loss of RMB41,362,000 (2013: RMB20,869,000), excluding dividend income from a subsidiary, which has been dealt with in the financial statements of the Company (note 29).

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 1,545,250,367 (2013: 1,278,450,685) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2014	2013
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**425,111**	332,533

	Number of shares	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,545,250,367**	1,278,450,685
Effect of dilution — weighted average number of ordinary shares:		
Share options	**49,601,154**	–
	1,594,851,521	1,278,450,685

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, 2014						
Cost:						
At January 1, 2014	495,712	629,989	12,675	2,694	121,797	1,262,867
Additions	901	34,602	3,575	1,466	130,235	170,779
Transferred from CIP	25,825	66,088	641	–	(92,554)	–
Disposals	(4,739)	–	–	–	(425)	(5,164)
At December 31, 2014	517,699	730,679	16,891	4,160	159,053	1,428,482
Accumulated depreciation:						
At January 1, 2014	30,437	219,769	3,214	1,658	–	255,078
Provided for the year	15,422	68,431	1,400	231	–	85,484
Disposals	(900)	–	–	–	–	(900)
At December 31, 2014	44,959	288,200	4,614	1,889	–	339,662
Net carrying amount:						
At January 1, 2014	465,275	410,220	9,461	1,036	121,797	1,007,789
At December 31, 2014	472,740	442,479	12,277	2,271	159,053	1,088,820
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

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

At the end of the reporting period, certain of the Group's plant and machinery with an aggregate carrying amount of RMB412,278,000 (2013: RMB500,305,000) have been pledged to secure the Group's interest-bearing bank loans (note 25).

12. PREPAID LAND LEASE PAYMENTS

	Group	
	2014	2013
	RMB'000	*RMB'000*
Carrying amount at January 1	**25,448**	26,067
Recognized during the year	**(619)**	(619)
Carrying amount at December 31	**24,829**	25,448
Current portion included in prepayments, deposits and other receivables (note 21)	**(619)**	(619)
Non-current portion	**24,210**	24,829

As of December 31, 2014, prepaid land lease payments with a net book amount of RMB20,246,000 (2013: RMB20,909,000) have been pledged to banks for bank loans granted to the Group (note 25).

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, 2014 and 2013 were in respect of prepayments for the purchase of property, plant and equipment and construction materials.

14. INVESTMENTS IN SUBSIDIARIES

	Company 2014 RMB'000	2013 RMB'000
Unlisted investments, at cost:	**543,376**	543,376
Amounts due from subsidiaries are repayable:		
On demand or within 1 year	**73,789**	45,077
In the second year	**156,609**	6,943
In the third to fifth years	**103,689**	24,442
	334,087	76,462

The amounts due from subsidiaries as of December 31, 2014 and 2013 are unsecured and interest-free.

As of December 31, 2014, except for the amounts due from subsidiaries denominated in US$ and HK$ amounting to RMB88,651,000 and RMB23,722,000 (2013: RMB16,084,000 and RMB8,000), 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, 2014 and 2013 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	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

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place and date of establishment or incorporation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
China Fiber Optic (Hong Kong) Limited	Hong Kong August 5, 2011	HK$1	100	Dormant
China Fiber Optic Holdings Limited	Hong Kong January 4, 2012	HK$1	100	Dormant
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
China Fiber Optic (Japan) Limited	Hong Kong February 28, 2014	HK$1	100	Investment holding
On Profit Inc Limited	Hong Kong May 3, 2014	HK$1	100	Sale of ceramic ferrule
Indirectly held:				
F-Pacific Optical Communication Co., Ltd.	Canada November 20, 2013	CAD15 million	100	Manufacture and sale of ceramic ferrule
Shanghai Net Miles Fiber Optic Technology Co., Ltd.	Mainland China March 3, 2014	RMB10 million	70	Development of specialty optical fiber
Shanghai Xunming Trade Co., Ltd.	Mainland China March 11, 2014	RMB1 million	70	Capital management
Hebei Smart Communication Technology Co., Ltd.	Mainland China March 11, 2014	RMB200 million	100	Manufacture and sale of ceramic ferrule

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place and date of establishment or incorporation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held:				
Hebei Optical City Communication Technology Co., Ltd.	Mainland China April 24, 2014	RMB10 million	100	Manufacture and sale of outdoor optic cable
Hebei Hongrui Communication Technology Co., Ltd.	Mainland China April 30, 2014	RMB50 million	100	Manufacture and sale of soft optic cable
Hebei Zhong Guang Hong Da Optoelectronic Technology Co., Ltd.	Mainland China May 9, 2014	RMB50 million	100	Manufacture and sale of components and accessories
Qianhai Jiayuan Technology Development (Shenzhen) Co., Ltd.	Mainland China August 27, 2014	RMB10 million	100	Import and export of ceramic ferrule and equipment
Qianhai Internet Traffic Technology (Shenzhen) Development Co., Ltd.	Mainland China November 18, 2014	RMB10 million	100	Network operation

15. GOODWILL

Goodwill which arose on the acquisition of Sifang Telecom by the Company represents the excess of the cost of the business combination over the Company's interest in the net fair value of Sifang Telecom's identifiable assets and liabilities as of the date of the acquisition.

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to Sifang Telecom's cash-generating unit for impairment testing. The recoverable amount of the Sifang Telecom cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14.0% (2013: 11.4%).

15. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*

Assumptions were used in the value in use calculation of Sifang Telecom's cash-generating unit for December 31, 2014 and 2013. 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 pre-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. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2014	2013
	RMB'000	*RMB'000*
Unlisted equity investment, at cost	**14,300**	–

The unlisted equity investment represented the Group's investment in Advanced Photonics, Inc., particulars of which are set out in the Company's announcement dated August 14, 2014. It is stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

17. ENTRUSTED LOAN RECEIVABLES

Group

On June 21, 2013 and June 24, 2013, the Group granted entrusted loans through Agricultural Bank of China to Gaocheng Simingshengguang Communication Equipment Ltd., an independent third party, with the respective principal amounts of RMB30,000,000 and RMB20,000,000. The entrusted loan receivables have been fully collected during the year.

18. DEFERRED TAX

Group

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

Deferred tax assets

	Accrued expenses *RMB'000*
At January 1, 2013	2,447
Deferred tax credited to profit or loss during the year *(note 8)*	2,273
At December 31, 2013 and January 1, 2014	4,720
Deferred tax charged to profit or loss during the year *(note 8)*	(3,007)
At December 31, 2014	1,713

Deferred tax liabilities

	Withholding tax on distributable profits of Sifang Telecom *RMB'000*
At January 1, 2013	11,202
Deferred tax charged to profit or loss during the year *(note 8)*	5,382
At December 31, 2013 and January 1, 2014	16,584
Deferred tax charged to profit or loss during the year *(note 8)*	8,406
At December 31, 2014	24,990

18. DEFERRED TAX *(continued)*

Deferred tax liabilities *(continued)*

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 24, 2014, 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, 2014 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 RMB8,406,000, representing 10% withholding tax on 25% of Sifang Telecom's distributable profit for the year ended December 31, 2014, has been provided for during the year. The aggregate amount of temporary differences associated with the investment in Sifang Telecom in Mainland China for which deferred tax liabilities have not been recognized approximated RMB947,048,000 at December 31, 2014 (2013: RMB694,856,000).

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, 2014, Sifang Telecom has obtained the renewed certificate as a high and new technology enterprise. Therefore, for Sifang Telecom, deferred tax assets are measured at 15% for the year ended December 31, 2014 (2013: 25%).

The Group has tax losses arising in Canada of RMB2,600,000 (2013: Nil) that are available that will expire in twenty years for offsetting against future taxable profits of the company in which the losses arose. The Group also has tax losses arising in Mainland China of RMB7,226,000 (2013: Nil) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

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

19. INVENTORIES

	Group	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**29,908**	17,425
Work in progress	**20,645**	3,929
Finished goods	**71,232**	7,103
	121,785	28,457

20. TRADE AND NOTES RECEIVABLES

	Group	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**2,195,156**	1,381,765
Notes receivable	**1,590**	–
Impairment	**–**	–
	2,196,746	1,381,765

Trade receivables are non-interest-bearing and are generally on terms of 30 to 360 days. The Group granted a qualified customer with a credit term up to 30 months.

The Group does not have any collateral or other credit enhancements over its trade receivable balances.

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

	Group	
	2014	2013
	RMB'000	*RMB'000*
Within 1 month	**262,775**	249,846
1 to 3 months	**370,058**	388,280
3 to 6 months	**733,970**	445,256
6 to 12 months	**656,447**	279,129
Over 12 months	**171,906**	19,254
	2,195,156	1,381,765

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

	Group	
	2014	2013
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,971,272**	1,266,491
Past due but not impaired		
Less than 1 month past due	**119,164**	56,013
Over 1 month but within 3 months past due	**78,358**	54,179
Over 3 months past due	**26,362**	5,082
	2,195,156	1,381,765

20. TRADE AND NOTES RECEIVABLES *(continued)*

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

Trade receivables that were past due but not impaired relate to 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 at December 31, 2014, certain trade receivables with an aggregate amount of RMB80,521,000 (2013: RMB178,864,000) have been pledged to secure the Group's interest-bearing bank loans (note 25).

At the end of the reporting period, trade receivables of the Group denominated in US$ amounted to RMB208,072,000 (2013: RMB189,663,000).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2014	2013
	RMB'000	*RMB'000*
Prepayments for purchase of raw materials	**26,534**	112,672
Prepaid land lease payments to be amortized within one year *(note 12)*	**619**	619
Input value-added tax	**5,340**	–
Deposits and other receivables	**9,243**	3,248
	41,736	116,539

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.

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**520,589**	463,459	**79,298**	118,218
Time deposits with original maturity less than 3 months	**375,507**	374,256	**428,901**	149,981
Time deposits with original maturity over 3 months	**190,396**	–	**–**	–
	1,086,492	837,715	**508,199**	268,199
Less: pledged bank balances for:				
— Issuance of notes payable *(note 23)*	**(41,586)**	(68,456)	**–**	–
— Issuance of letters of guarantee	**(1,860)**	–	**–**	–
— Issuance of letters of credit	**(1,078)**	–	**–**	–
— Credit cards	**(211)**	–	**–**	–
	(44,735)	(68,456)	**–**	–
Cash and cash equivalents	**1,041,757**	769,259	**508,199**	268,199

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**1,014,122**	809,016	**480,852**	255,427
US$	**12,939**	27,478	**464**	11,714
HK$	**28,521**	1,221	**26,883**	1,058
CAD	**30,910**	–	**–**	–
	1,086,492	837,715	**508,199**	268,199

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. Time deposits are made for varying periods of between two weeks and six months, and earn interest at the respective deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE AND NOTES PAYABLES

	Group 2014 RMB'000	Group 2013 RMB'000
Trade payables	**209,806**	158,039
Notes payable	**84,623**	121,285
	294,429	279,324

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

	Group 2014 RMB'000	Group 2013 RMB'000
Within 3 months	**178,902**	161,088
3 to 6 months	**82,739**	109,796
6 months to 1 year	**28,911**	2,612
Over 1 year	**3,877**	5,828
	294,429	279,324

Notes payable are interest-free with terms of maturity of within 180 days. As at December 31, 2014, notes payable were secured by the pledge of cash at banks of RMB41,586,000 (2013: RMB68,456,000) (note 22).

24. OTHER PAYABLES AND ACCRUALS

	Group 2014 RMB'000	Group 2013 RMB'000
Payables related to:		
Taxes and surcharges	**480,333**	369,909
Payroll and welfare	**11,263**	8,566
Property, plant and equipment	**50,681**	42,596
Professional fees	**1,314**	1,314
Advance from government agencies	**–**	1,500
Others	**11,898**	3,165
	555,489	427,050
Accruals	**5,710**	5,825
	561,199	432,875

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

25. INTEREST-BEARING BANK LOANS

		Group		Company	
		2014 **RMB'000**	2013 *RMB'000*	**2014** **RMB'000**	2013 *RMB'000*
Secured	(a)	**488,926**	515,325	**–**	–
Unsecured	(b)	**205,547**	54,153	**57,588**	–
		694,473	569,478	**57,588**	–
Repayable:					
Within one year		**518,846**	403,399	**57,588**	–
In the second year		**174,168**	146,817	**–**	–
In the third to fifth years, inclusive		**710**	18,279	**–**	–
Beyond five years		**749**	983	**–**	–
		694,473	569,478	**57,588**	–
Balances classified as current liabilities		**518,846**	403,399	**57,588**	–
Balances classified as non-current liabilities		**175,627**	166,079	**–**	–

(a) As at December 31, 2014, included in secured bank loans is a bank loan of RMB1,933,000 (2013: RMB2,162,000) 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 installments commencing on March 3, 2013.

The bank loans were secured by:

	Group	
	2014 **RMB'000**	2013 *RMB'000*
Secured by — net book amount of:		
Property, plant and equipment *(note 11)*	**412,278**	500,305
Prepaid land lease payments *(note 12)*	**20,246**	20,909
Trade receivables *(note 20)*	**80,521**	178,864

(b) As at December 31, 2014, included in unsecured bank loans is a bank loan of RMB117,960,000 (2013: RMB54,153,000) which is denominated in US$, bears interest at 3% above the prevailing London Interbank Offered Rate per annum repayable within three years by instalments, and a bank loan of RMB57,588,000 (2013: nil) which is denominated in HK$ and bears interest at 3% above the prevailing Hong Kong Interbank Offered Rate per annum repayable before July 3, 2015.

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

As at December 31, 2014, except for the bank loans bearing interest at floating rates detailed in note (a) and (b) above, all bank loans bear interest at fixed rates per annum in the range of 3.39% to 7.80% (2013: 4.24% to 8.20%).

As at December 31, 2014, except for the bank loans of RMB73,163,000 (2013: RMB73,163,000) denominated in US$ and bank loans detailed in note (a) and (b) above denominated in HK$ and US$, all bank loans are denominated in RMB.

The directors of the Company have assessed that the fair values of the long-term interest-bearing bank loans approximate to their carrying amounts 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).

26. DEFERRED INCOME

	Group	
	2014 ***RMB'000***	2013 *RMB'000*
At beginning of year	**6,217**	3,727
Additions	**12,350**	3,570
Released to profit or loss *(note 5)*	**(2,263)**	(1,080)
At end of year	**16,304**	6,217

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 are the Group's major products. 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.

27. SHARE CAPITAL

	2014 ***RMB'000***	2013 *RMB'000*
Authorized: 10,000,000,000 (2013: 10,000,000,000) ordinary shares of US$0.001 each	**64,716**	64,716
Issued and fully paid: 1,746,000,000 (2013: 1,457,300,000) ordinary shares of US$0.001 each	**11,125**	9,346

27. SHARE CAPITAL *(continued)*

(a) During the year, the Company repurchased its 5,888,000 ordinary shares with par value of US$0.001 each at prices ranging from HK$1.80 to HK$2.13 per share at a total consideration of approximately HK$11,795,000 (equivalent to RMB9,333,000). The 2,300,000 repurchased ordinary shares were cancelled during the year. The premium of approximately HK$11,749,000 (equivalent to RMB9,295,000) paid on the repurchase of such shares was debited to the share premium account and an amount of US$2,300 (equivalent to RMB15,000) was transferred from retained earnings of the Company to the capital redemption reserve according to the Companies Law of the Cayman Islands.

The remaining repurchased 3,588,000 ordinary shares were held as treasury shares and carried at cost as at December 31, 2014, and were subsequently cancelled on February 27, 2015. Treasury shares have no voting rights, or rights to dividends and participation in other distributions.

(b) During the year, the Company completed the placing and subscription of 291,000,000 shares at a price of HK$2.42 per share. The proceeds of HK$2,258,000 (equivalent to RMB1,794,000), representing the par value, have been credited to the Company's share capital. The remaining proceeds of HK$701,962,000 (equivalent to RMB556,337,000), before issue expenses, have been credited to the share premium account.

28. 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 was 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.

28. 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.

28. SHARE OPTION SCHEMES *(continued)*

The following share options were outstanding under the Old Option Scheme as of December 31, 2014 and 2013:

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$408,000 (equivalent to approximately RMB332,000) during the year ended December 31, 2014 (2013: HK$2,088,000 (equivalent to approximately RMB1,701,000)).

The following share options were outstanding under the New Option Scheme as at December 31, 2014 and 2013:

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$13,630,000 (equivalent to approximately RMB10,842,000) during the year ended December 31, 2014 (2013: HK$13,155,000 (equivalent to approximately RMB10,464,000)).

28. SHARE OPTION SCHEMES *(continued)*

The Company had 47,066,000 share options exercisable as of December 31, 2014 (2013: 14,400,000 shares) with a weighted average exercise price of HK$1.1 per share (2013: HK$1.2 per share).

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, 2014 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 5.62% of the Company's shares in issue as of that date.

29. 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 56 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.

29. RESERVES *(continued)*

(b) Statutory reserve fund

According to the relevant PRC regulations applicable to wholly-foreign-owned enterprises, the PRC subsidiaries are required to allocate a certain portion (not less than 10%) of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of its registered capital.

SRF is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or capitalized as paid-up capital.

(c) Special reserve

On December 8, 2008, Sifang Telecom entered into a debt restructuring agreement with the then shareholders of Sifang Telecom, pursuant to which they agreed to waive the amounts due from Sifang Telecom totaling 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.

29. RESERVES *(continued)*

Company

The amounts of the Company's reserves and the movements therein for the current and prior years are as follows:

	Notes	Share premium RMB'000	Capital contribution reserve RMB'000	Share option reserve RMB'000	Capital redemption reserve RMB'000	Foreign translation reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
At January 1, 2013		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 arrangements	28	–	–	12,165	–	–	–	12,165
Issue of shares		204,045	–	–	–	–	–	204,045
Share issue expenses		(4,128)	–	–	–	–	–	(4,128)
Proposed final 2013 dividend	30	–	–	–	–	–	(57,288)	(57,288)
At December 31, 2013		540,123	62,825	19,605	–	738	139,070	762,361
Total comprehensive income for the year		–	–	–	–	(1,401)	(41,362)	(42,763)
Repurchase of shares	27	(9,295)	–	–	15	–	(15)	(9,295)
Issue of shares	27	556,337	–	–	–	–	–	556,337
Share issue expenses		(20,286)	–	–	–	–	–	(20,286)
Equity-settled share option arrangements	28	–	–	11,174	–	–	–	11,174
At December 31, 2014		1,066,879	62,825	30,779	15	(663)	97,693	1,257,528

30. DIVIDENDS

(a) Bonus share issue

Pursuant to the resolution at the board of directors' meeting held on March 30, 2015, a bonus issue of share was recommended on the basis of two new ordinary shares of US$0.001 for every ten existing shares held by the shareholders of the Company. The bonus shares will be credited as fully paid by way of capitalisation of an amount equal to the total par value of the bonus shares in the share premium account of the Company.

30. DIVIDENDS *(continued)*

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

	RMB'000
Proposed final 2013 dividend of HK5 cents per ordinary share:	
Declared during the year	57,288
Paid during the year	(57,288)
	–

31. PLEDGE OF ASSETS

Details of the Group's bank loans and the assets pledged to secure the bank are included in notes 11, 12, 20 and 25 to the financial statements.

32. 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, 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2014 **RMB'000**	2013 RMB'000
Within one year	**7,402**	1,729
In the second to fifth years, inclusive	**4,676**	4,404
After five years	**253**	228
	12,331	6,361

(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, 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2014 **RMB'000**	2013 RMB'000
Within one year	**4,135**	1,689
In the second to fifth years, inclusive	**3,717**	2,182
	7,852	3,871

33. COMMITMENTS

In addition to the operating lease arrangements detailed in note 32 (b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2014	2013
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and machinery	**29,273**	35,786

34. CONTINGENT LIABILITIES

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

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transaction with a related party during the year:

On February 1, 2014 the Group entered into a tenancy agreement with Steel Magnolia Investment Ltd. ("Steel Magnolia"), a company controlled by Mr. Zhao Bing's wife, Ms. Du Lixia. Mr. Zhao Bing is the chairman and executive director of the Company. Pursuant to the tenancy agreement, the Group leased from Steel Magnolia a building with a total floor area of 377.74 square metres for five years ending February 1, 2019 at a fixed monthly rental of approximately Canadian dollars 4,358 (equivalent to approximately RMB25,000). During the year, the rental paid by the Group to Steel Magnolia amounted to RMB275,000 (2013: Not applicable). The directors considered that the rental expenses charged under the tenancy agreement were based on the market rate for similar premises in a nearby location.

(b) Compensation of key management personnel of the Group:

	2014	2013
	RMB'000	*RMB'000*
Basic salaries and other benefits	**5,309**	4,798
Equity-settled share option expense	**11,104**	12,096
Pension scheme contributions	**100**	73
	16,513	16,967

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group mainly include cash and cash equivalents, pledged bank balances, 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, 2014					
	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	–	7,702	534,467	181,477	860	724,506
Trade and notes payables	3,877	14,456	276,096	–	–	294,429
Other payables and accruals	69,603	–	–	–	–	69,603
	73,480	22,158	810,563	181,477	860	1,088,538

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

Group *(continued)*

	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

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 25. 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 and Canada. 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 71% (2013: 68%) 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.

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

Credit risk *(continued)*

The carrying amounts of trade and other receivables, notes receivable, 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$, HK$ and CAD, 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.

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

Foreign currency risk *(continued)*

The following table demonstrates the sensitivity to a 5.0% change in RMB against US$. 5.0% is the rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign currency rate. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period has been determined based on the adjustment of translation of the monetary assets and liabilities at the end of the reporting period for a 5.0% change in RMB against US$, 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$).

	2014 ***RMB'000***	2013 *RMB'000*
Increase/(decrease) in profit before tax:		
If RMB weakens against US$	**242**	4,491
If RMB strengthens against US$	**(242)**	(4,491)

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.

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

Capital management *(continued)*

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 the reporting period were as follows:

	Group	
	2014	2013
	RMB'000	*RMB'000*
Interest-bearing bank loans	**694,473**	569,478
Trade and notes payables	**294,429**	279,324
Other payables and accruals	**561,199**	432,875
Tax payable	**195,699**	135,660
Less: Cash and cash equivalents	**(1,041,757)**	(769,259)
Pledged bank balances	**(44,735)**	(68,456)
Net debt	**659,308**	579,622
Equity	**2,931,367**	2,027,517
Equity and net debt	**3,590,675**	2,607,139
Gearing ratio	**18%**	22%

37. EVENTS AFTER THE REPORTING PERIOD

Except for the proposed bonus share issue detailed in note 30, as at the date of approval of the financial statements, the Group has no event after the reporting period that needs to be disclosed.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on March 30, 2015.