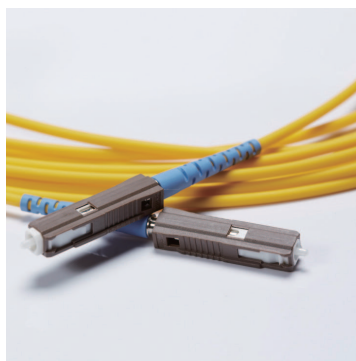




CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3777



Interim Report **2014**

Contents

Financial Highlights	02
Company Overview	03
Corporate Information	04
Management Discussion and Analysis	06
Corporate Governance and Other Information	18
Report on Review of Interim Condensed Financial Information	24
Interim Condensed Financial Information	
Interim:	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	25
Consolidated Statement of Financial Position	26
Consolidated Statement of Changes in Equity	28
Consolidated Statement of Cash Flows	29
Notes to Interim Condensed Financial Information	31

Financial Highlights

For the six months ended June 30, 2014, operating results of the Group were as follows:

- Revenue reached RMB983,587,000, an increase of 26.8% from the corresponding period of last year;
- Gross profit margin was 26.8% as compared to 26.5% of the corresponding period of last year;
- Profit before tax increased by 27.2% from the corresponding period of last year;
- Profit for the period amounted to RMB159,232,000, an increase of 23.3% over the corresponding period of last year;
- Basic and diluted earnings per share increased 2.8% to RMB10.9 cents and remained the same as RMB10.6 cents over the corresponding period of last year, respectively;
- No interim dividend was declared;
- The Board intends to increase payout ratio of 2014 final dividend.

Company Overview

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

The Group produces and sells a comprehensive portfolio of fiber optic patch cords with more than 100 different models used in a variety of applications in the telecommunications and other industries. In addition to fiber optic patch cords, the Group also produces connection and distribution products and equipment room accessories.

The Group’s production facility is located in Shijiazhuang, Hebei Province, with annual maximum production capacity of 29.4 million sets of fiber optic patch cords and 260,000 km of soft optical cables.

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

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

Corporate Information

PLACE OF INCORPORATION

Cayman Islands

FINANCIAL YEAR END

December 31

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRODUCTION FACILITIES IN THE PRC

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

COMPANY'S WEBSITE

www.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 (*Chief Financial Officer*)
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

Corporate Information

AUTHORIZED REPRESENTATIVES

Mr. Hung, Randy King Kuen
Mr. Meng Yuxiao

COMPANY SECRETARY

Mr. Hung, Randy King Kuen

LEGAL ADVISORS TO THE COMPANY

As to Hong Kong law:
Brandt Chan & Partners

As to Cayman Islands law:
Maples and Calder

INDEPENDENT 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
HSBC

STOCK INFORMATION

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

3777

Listing Date

July 14, 2011

Issued Share Capital

1,455,000,000 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

Management Discussion and Analysis

OVERVIEW

For the six months ended June 30, 2014 ("the Period"), the Group's revenue increased 26.8% to RMB983,587,000 as compared to the corresponding period of last year.

Profit before tax increased by 27.2% from the corresponding period of last year and profit for the Period increased by 23.3% to reach RMB159,232,000, as a result of growth of revenue from all category of the Group's products.

Basic and diluted earnings per share for the Period based on weighted average number of ordinary shares of 1,456,970,000 and 1,502,312,000 in issue increased 2.8% to RMB10.9 cents and remained the same as RMB10.6 cents over the corresponding period of last year, respectively.

REVENUE BY PRODUCT CATEGORY

Revenue by product category during the six months ended June 30, 2014 and 2013 are set forth below:

Six months ended June 30,			
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)	Change
Fiber optic patch cords	678,069	606,890	11.7%
Connection and distribution products	248,354	120,644	105.9%
Equipment room accessories	57,164	48,105	18.8%
	983,587	775,639	26.8%

Connection and distribution products are mainly comprised of optical distribution frames ("ODF"). ODF are used to connect and schedule optical fibers and optical cables applicable to fiber intersections between an optical transmission network and optical transmission devices as well as between optical cables in an access networks. ODF are bundled and pre-installed with fiber optic patch cords produced by the Group.

Equipment room accessories primarily consist of fiber access terminals ("FAT"). Located at the user access point, FAT is used to connect and distribute optical cables with optical splitters.

The ramp up of 4G infrastructure deployment and ongoing "Broadband China" initiative have benefited the Group's product sales. Sales of fiber optic patch cords, connection and distribution products, and equipment room accessories increased by 11.7%, 105.9%, and 18.8%, respectively.

Fiber optic patch cord sales rebounded from last year's decline, as sales volume in domestic market increased by 41.9%. Connection and distribution products and equipment room accessories continued to see growth, as the Group is stepping up its effort to expand geographic coverage on these two product categories.

Management Discussion and Analysis

DOMESTIC AND OVERSEAS SALES

During the Period, sales of fiber optic patch cords to domestic and overseas customers accounted for 86.7% and 13.3%, respectively as compared to 86.9% and 13.1% of the corresponding period of last year.

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

Six months ended June 30,			
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)	Change
Domestic sales — fiber optic patch cords	587,935	527,652	11.4%
Domestic sales — other products	305,518	168,749	81.0%
	893,453	696,401	28.3%
Overseas sales — fiber optic patch cords:			
— New Zealand	55,746	55,169	1.0%
— Australia	31,706	2,824	1022.7%
— United Kingdom	2,682	1,014	164.5%
— Ireland	—	20,231	(100.0%)
	90,134	79,238	13.8%
	983,587	775,639	26.8%

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

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

The increase in overseas sales was attributable to the growing demand of fiber optic patch cord for continuous deployment of the “National Broadband Network” initiative in Australia and the “Ultra-Fast Broadband” in New Zealand. Looking forward, the Group will continue to expand into more new countries while launching more models for overseas customers.

SALES VOLUME AND BLENDED AVERAGE SELLING PRICE

The following summarizes the sales volume and blended average selling price of our fiber optic patch cords for periods ended June 30, 2014 and 2013:

	First six months of 2014		First six months of 2013	
	Sales volume (Sets)	Blended Average Selling Price	Sales volume (Sets)	Blended Average Selling Price
Fiber optic patch cords — domestic	15,242,032	RMB38.6	10,741,610	RMB49.1
Fiber optic patch cords — overseas	564,132	US\$26.0	500,082	US\$25.8
	15,806,164		11,241,692	

Management Discussion and Analysis

A total of 15,806,164 sets of fiber optic patch cords were sold by the Group during the Period, representing a 40.6% increase in total sales volume compared to the corresponding period last year. Domestic sales volume jumped 41.9%, while overseas sales volume increased by 12.8%.

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

Bundle patch cords are those usually with 6, 8 or 12 connectors on each end of the patch cords while non-bundle patch cords are those with 1 to 2 connectors on each end of the patch cords. For the first six months of 2014, sales of bundle patch cords per set accounted for 22.3% of total domestic sales of patch cords as compared to 25.2% of the corresponding period of last year. The trend in the first half of 2014 continued to lean towards non-bundle patch cords with shorter length, which consequentially lowered the blended average selling price of our fiber optic patch cords for the domestic market.

Blended average selling prices of bundle and non-bundle patch cords sold to the domestic market were RMB98.4 and RMB32.8 per set as compared to RMB133.9 and RMB40.4 for the six months ended June 30, 2014 and 2013, respectively.

GROSS PROFIT MARGIN

For the first six months of 2014, overall gross profit margin of the Group was 26.8%, as compared to 26.5% for the corresponding period of last year.

The following table sets forth gross profit margins from the Group's overall sales and from domestic and overseas sales of fiber optic patch cords for the first six months of 2014 and 2013:

	First six months of 2014 Gross profit margin (Unaudited)	First six months of 2013 Gross profit margin (Unaudited)
Overall sales	26.8%	26.5%
Fiber optic patch cords — domestic sales	22.7%	24.8%
Fiber optic patch cords — overseas sales	57.4%	54.4%
Connection and distribution products	25.4%	18.8%
Equipment room accessories	26.8%	19.0%

Gross margin on domestic sales of fiber optic patch cords edged down from 24.8% to 22.7% mainly as margin of bundle patch cords decreased during first half of 2014. Coupled with in house production of soft optical cables and ceramic ferrules, the gross margin for full-year domestic sales is expected to improve. Gross margin on overseas sales of fiber optic patch cord increased due to sales of more technically stringent models.

Management Discussion and Analysis

The Group's gross margin on fiber optic patch cords is expected to considerably increase as high volume production on ceramic ferrule is now scheduled to commence in late third quarter of 2014 with a goal to produce 20 million units of ceramic ferrules in 2014, and 200 million units in 2015 for internal use and sales to overseas market.

Increases in gross margins on connection and distribution products, and equipment room accessories were both attributed to lower production costs from the economy of scale on increased volume, coupling with favorable pricing secured from certain tenders.

OTHER INCOME

During the Period, other income increased by 62.2% to RMB9,916,000 as compared with the corresponding period of last year. The increase was mainly due to the increases in bank interest income.

SELLING AND DISTRIBUTION EXPENSES

During the Period, selling and distribution expenses of the Group increased by 89.5% to RMB6,529,000 as compared to the corresponding period of last year.

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

The increase of selling and distribution expenses was due to increase in transportation fee from sales of connection and distribution products and equipment room accessories, and increase in overseas marketing activities.

Selling and distribution expenses were 0.7% and 0.4% of revenue for the six months ended June 30, 2014 and 2013, respectively.

ADMINISTRATIVE EXPENSES

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

For the first six months of 2014, administrative expenses went up RMB16,862,000 or by 53.8% as compared to the corresponding period of last year, primarily due to increase in share option expense by RMB5,717,000 from employee stock options granted in July 2013, and increase in various taxes by RMB3,999,000.

Depreciation of property, plant and equipment not related to production increased to RMB4,214,000 for the Period from RMB2,854,000 for the six months ended June 30, 2013.

Share option expense was RMB6,773,000 and RMB1,056,000 for the six months ended June 30, 2014 and 2013, respectively.

Research and development costs were RMB9,081,000 and RMB9,044,000 for the six months ended June 30, 2014 and 2013, respectively. The Group continues to dedicate considerable efforts and resources to research and development to strengthen new product pipelines to suit for specific needs of our customers.

For the first half of 2014 and 2013, administrative expenses accounted for 4.9% and 4.0% of total revenue respectively.

Management Discussion and Analysis

FINANCE COSTS

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

For the first half of 2014 and 2013, finance costs accounted for 2.0% and 2.3% of total revenue respectively.

Finance costs increased 10.6% to RMB19,394,000 as compared to the corresponding period of last year as the average balance of bank loans was higher during the Period than the corresponding period of 2013.

The effective interest rates of our bank loan during the Period ranged from 2.15% to 7.8%, which remained the same with the corresponding period of last year.

INCOME TAX EXPENSES

Income tax expenses increased 46.1% to RMB39,527,000 during the first half of 2014 as compared with the corresponding period of last year. The increase was more than the increase in profit during the Period due to increases in non-deductible items such as share option expense and higher portion of interest expense incurred from bank borrowings of the Company and a subsidiary in Hong Kong. Accordingly, for the six months ended June 30, 2014, the effective tax rates increased from 17.3% to 19.9% as compared to the corresponding period of last year.

Please refer to Note 6 to Interim Condensed Financial Information for further details on income tax rates.

EARNINGS PER SHARE

The following table shows the movement of shares outstanding for the Period:

	Date	Number of Shares	Weighted Average Number of Shares
Opening	July 1, 2013	1,217,300,000	1,217,300,000
Placing	September 30, 2013	240,000,000	240,000,000
Cancellation of repurchased shares	June 4, 2014	(2,300,000)	(330,000)
Ending	June 30, 2014	1,455,000,000	1,456,970,000

During the Period, the Company repurchased a total of 2,300,000 shares at an aggregate purchase price of HK\$4,231,000 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). All the repurchased shares were cancelled during the period ended June 30, 2014.

Basic and diluted earnings per shares for the period ended June 30, 2014 was calculated based on weighted average number of ordinary shares of 1,456,970,000 in issue, as adjusted to reflect the repurchase during the Period, which were RMB10.9 cents as and RMB10.6 cents respectively as compared to RMB10.6 cents and RMB10.6 cents based on weighted average number of ordinary shares of 1,217,300,000 over the corresponding period of last year.

Management Discussion and Analysis

PRODUCTION CAPACITY

During the Period, the Group had added production machinery and shortened lead time of certain manufacturing processes to further boost the production capacity of fiber optic patch cords to 21,000,000 sets per annum based on 5 days work week and 29,400,000 sets per annum based on seven days work week.

The Group has a total of 20 soft optic cable production lines in the first half of 2014 enabling the Group to reach annual capacity of 260,000 km of soft optical cable based on 5 days work week, of which 5 production lines are capable of making bow-type drop cables for fiber to the home wiring.

CAPITAL EXPENDITURES

The Group incurred capital expenditures of RMB80,971,000 for the Period, which were mostly related to setting up production facilities of ceramic ferrules, and other projects related to enhancing productivity and production capacity.

Capital expenditures have been primarily funded by cash balance, bank borrowings, and the net proceeds from the placing in September 2013.

In the coming six months, the Group expects to incur additional capital expenditures of approximately RMB400,000,000 to, among other things, further increase production capacities of ceramic ferrules, purchase of production equipment, establishing and upgrade production facilities, workshops and buildings. These capital expenditures are expected to be funded by cash generated from operations, remaining net proceeds from placement of new shares in September 2013, and other financing alternatives including further bank financing and leasing. Please refer to the Use of The Proceeds from the Placing section below for further detail.

USE OF PROCEEDS FROM THE PLACING

The Company confirms that up to July 23, 2014, net proceeds of HK\$253,910,664 (approximately equivalent to RMB201,392,000) from placing of 240,000,000 of new shares in September 2013 has been applied as follows:

- (i) RMB115,266,485 for establishing product facilities for product components; and
- (ii) RMB893,942 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 September 18, 2013.

INTERIM DIVIDEND

The board of directors of the Company (the "Board") resolved not to declare an interim dividend for the Period.

DIVIDEND POLICY

The Board intends to increase payout ratio of 2014 final dividend.

CAPITAL STRUCTURE

During the Period, the Group financed its growth in business primarily by cash inflow from operations and utilizing bank borrowings. Interest bearing bank loans increased slightly from RMB569,478,000 as at December 31, 2013 to RMB573,126,000 as at June 30, 2014.

The Group's share capital reduced from RMB9,346,000 to RMB9,331,000 during the Period as the Group repurchased a total of 2,300,000 of issued shares from the market.

Management Discussion and Analysis

GEARING RATIO

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

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

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

The Group's gearing ratios as of June 30, 2014 and December 31, 2013 were 31% and 22%, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2014, cash and bank deposits amounted to RMB481,008,000 which comprised of RMB348,025,000, and others being equivalent to RMB14,689,000, RMB115,534,000 and RMB2,760,000 denominated in Hong Kong Dollars ("HK Dollars"), United States Dollars ("US Dollars") and Canadian Dollars respectively.

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

CASH FLOW ANALYSIS

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

	For the six months ended June 30,	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Net cash flows from/(used in) operating activities	(224,698)	18,008
Net cash flows used in investing activities	(140,634)	(186,462)
Net cash flows used in financing activities	(59,791)	(17,536)
Net decrease in cash and cash equivalents	(425,123)	(185,990)

Net cash flows used in operating activities for the first six months of 2014 was primarily generated from profit before tax amounted to RMB198,759,000 offset by the increases of RMB486,737,000 and RMB96,760,000 in trade receivables and inventories respectively.

Net cash flows used in investing activities for the first six months of 2014 was primarily related to reduction of pledged deposits of RMB32,942,000 and payments of RMB47,782,000 for capital expenditures and increase in time deposits of RMB136,500,000.

Management Discussion and Analysis

Net cash inflows used in financing activities for the first six months of 2014 was primarily derived from payment of dividend of RMB57,288,000.

CASH AND BANK BALANCES

As of August 25, 2014, the Group has a total cash and bank balances of approximately RMB611,099,000.

TRADE RECEIVABLES

Trade receivable, balance as at June 30, 2014 was RMB1,870,241,000 as compared to RMB1,381,765,000 as at December 31, 2013. The increase in trade receivables was in line with the increase in revenue but also largely related to slower collection toward the end of June 2014. As of August 25, 2014, a total of RMB386,079,000 from these trade receivables were collected from customers.

As of June 30, 2014, there were RMB24,294,000 of trade receivables past due beyond the contractual credit term. Payments of RMB22,414,000 of these past due amounts were collected by August 25, 2014.

Trade receivable turnover days were 298 days and 229 days for the six months ended June 30, 2014 and for the year ended December 31, 2013, respectively.

There were no bad debt provisions made on trade receivables for the six months ended June 30, 2014 and for the year ended December 31, 2013.

INVENTORIES

Inventories as at June 30, 2014 amounted to RMB125,217,000 as compared to RMB28,457,000 as at December 31, 2013.

The increase of inventories was primarily attributable to the increase of raw materials from RMB17,425,000 to RMB88,813,000, and work-in-progress from RMB3,929,000 to RMB29,404,000. Most of these raw materials and work in progress were turned into finished goods and sold to customers as of the date of this report.

Inventory turnover days were 19 days and 9 days for the six months ended June 30, 2014 and for the year ended December 31, 2013, respectively.

ENTRUSTED LOAN RECEIVABLES

In June 2013, the Group engaged Agricultural Bank of China to act as a lending agent to release two entrusted loans in total principal amount of RMB50,000,000 to one of the Group's suppliers.

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

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

As at June 30, 2014, the Group held trade payables due to this supplier with an aggregate amount of RMB97,436,000.

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

Management Discussion and Analysis

TRADE AND NOTES PAYABLES

Trade and notes payables as at June 30, 2014 amounted to RMB219,143,000 as compared to RMB279,324,000 as at December 31, 2013.

Trade and notes payables turnover days were 63 days and 68 days for the six months ended June 30, 2014 and for the year ended December 31, 2013, respectively.

INDEBTEDNESS

As at June 30, 2014 and December 31, 2013, our total banking loans amounted to RMB573,126,000, and RMB569,478,000, respectively.

The effective interest rates of our bank loans per annum were 2.15% to 7.8% and 2.15% to 8.2% as at June 30, 2014 and December 31, 2013, respectively.

Please refer to Note 15 to the Interim Condensed Financial Information for more details of our bank loans.

OTHER PAYABLES AND ACCRUALS

Other payables and accruals consists primarily of taxes payable other than income tax, and payable to contractors. The increase in balance was due to the increases in outstanding payables for construction in progress related to establishing and upgrading of production and non-production facilities, as well as accrual of taxes other than income tax.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at June 30, 2014.

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

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

CHARGES ON ASSETS

As at June 30, 2014, in addition to pledged bank balances of RMB35,514,000 (December 31, 2013: RMB68,456,000) the Group had pledged RMB448,755,000 (December 31, 2013: RMB700,078,000) of assets in order to secure notes payable, banking facilities or bank loans.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

As at June 30, 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.

Management Discussion and Analysis

RELATED PARTY TRANSACTIONS

Save as disclosed in Note 20 to the Interim Condensed Financial Information, the Group had not entered into any material related party transactions for each of the six months periods ended June 30, 2014 and 2013.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As at June 30, 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 events constitutes an event of default:

- (i) Kemy Holding Inc. (“Kemy Holding”), the Company’s controlling shareholder, ceases to legally and beneficially own at least 30.00% of the issued shares of the Company.
- (ii) Mr. Zhao Bing, the Company’s controlling shareholder, ceases to legally and beneficially own at least 75.00% of the issued shares of Kemy Holding.
- (iii) Mr. Zhao ceases to remain as management over the Company.

EMPLOYEES AND STAFF COSTS

As at June 30, 2014, the Group had 882 employees (June 30, 2013: 508 employees). During the Period, the Group had engaged independent human resource firm from time to time to provide temporary workers according to the need of production orders.

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

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

Management Discussion and Analysis

FORMATION OF JOINT VENTURE

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

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

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

INVESTMENT IN ADVANCED PHOTONICS, INC.

In August 2014, the Group’s wholly owned subsidiary China Fiber Optic (Japan) Limited has entered into a share subscription agreement with Advanced Photonics, Inc. (“APi”) of Japan. Upon completion of the subscription of 4,000 shares of common stock to be issued by APi with a total issue price of JPY240,000,000 (equivalent to approximately RMB14,431,000), the Company will become the largest shareholder of APi with a shareholding interest of approximately 8.48% before APi’s senior management exercises their employee stock options granted to them under a share option scheme (the “Options”), and 6.84% after APi’s senior management exercises the Options.

APi shall transfer the manufacturing technology relating to the Active Optical Cable to the Company’s subsidiary, Net Miles Fiber Optics. For particulars of the share subscription, please refer to the Company’s announcement dated August 14, 2014.

OUTLOOK

The roll-out of 4G LTE licenses and fiber to the home by China’s telecom operators, and convergence of tri-network will undoubtedly continue to boost demand for the Group’s products for a while. Continuous market growth will be largely buoyed by the country’s national strategy “Broadband China” which sets clear targets for China to reach 400 million Broadband access subscribers, and Fiber-to-the-Home for 300 million households, in addition to the regulation requiring all new residential buildings in cities and counties completed after April 1, 2013 to be equipped with optical fiber access.

At this point, the top priority for the Group is not only to ride on the growth of market. We are also working diligently to ink on a much higher growth by branching out and moving up the value chain to supply more high-end high margin new products which will significantly enhance the Group’s earning potential in 2015 and 2016:

ROADMAP TO GROWTH

2014 / 2015 — FiberHome Technologies

In March 2014, the Company and FiberHome Technologies Group (“FiberHome Technologies”) entered into a strengthen cooperation framework agreement with the intent to strength the cooperation between the two parties in various aspects, including the development of opto-electronics business and smart city.

Management Discussion and Analysis

FiberHome Technologies is a wholly owned subsidiary of Wuhan Research Institute of Posts and Telecommunications, an institute owned by the State Council Assets Supervision and Administration Commission. FiberHome Technologies holds various interests in a number of listed companies and holding companies. The Board believes that the strategic cooperation with FiberHome Technologies will aid the Group to venture into high-end device industry and effectively integrate the advantages of both parties in communication technologies and customer resources in related markets.

2014 / 2015 — Ceramic Ferrules

In June 2014, the Group announced our trial production of ceramic ferrule, a core component of various passive optical equipment, including optical splitter, optical modem, and the Group's major product — fiber optic patch cords. The trial production was a success and the Group is moving up its schedule to mass produce ceramic ferrules commencing in late September 2014, and is raising its production target to 200 million units of ceramic ferrules in 2015 with an aim to introduce ceramic ferrules as the Group's new product to overseas market in 2015.

All ceramic ferrules made in 2014 and a sizeable portion of those made in 2015 will be for internal use, resulting in a considerable reduction on cost of fiber optic patch cords manufactured. The remaining surplus will be sold to overseas market via our global distributor in Japan commencing 2015.

Our ceramic ferrules are expected to considerably improve gross margin, expand product pipeline and serves to safeguard quality of core components. It will also strengthen the Group's core competitiveness, and lay a solid foundation for the Group to seize opportunities for business growth from 4G and "Broadband China".

2015 — Active Optical Cables

In August 2014, the Group became the largest shareholder of Advanced Photonics, Inc. ("APi") of Japan, with an aim to utilize its proprietary technology in Active Optical Cable ("AOC") to launch our new 100G AOC products to the market in 2015 for high-speed and large-capacity interconnections in data centers and supercomputers which require ultra-high bandwidth in the current big data and cloud computing era.

Through collaboration with APi, which specializes in development of advanced optoelectronic products and technologies, the Group is poised to offer a series of high-end optical interconnection new products for the usage of intra- and interconnections between equipment, circuit boards and ultimately, chips.

2016 — Specialty Optical Fiber

The Group is currently on track in the establishment of a high tech production facilities in Shanghai for our joint venture to provide technologically innovative products in specialty optical fiber for sensing purposes. Target customers of specialty optical fiber include infrastructure companies in the transportation and oil and gas sectors, as well as the military equipment industry, etc.

Armed with proprietary technology and production knowhow contributed from our joint venture partner, the Group expects to commence offering proprietary specialty optic fiber and its related products for non-telecom sectors in China and overseas in early 2016.

Breaking Through into a New Business Model

The Group's business growth is in a major breakthrough period. We will uphold our existing development strategy through acquisitions and continuous R&D, expediting the launch of high-end optical connection products for interconnections between equipment and racks, printed circuit boards, as well as chips. The Group will speed up our transition into an optical interconnections solutions provider, while further developing our customer base beyond telecom operators so as to enhance the Group's core competitiveness in the global optical communications market.

Corporate Governance and Other Information

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management and the Company's independent auditor the unaudited interim results as well as the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim condensed financial information for the six months ended June 30, 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2014, the Company has been in compliance with the principles and provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules

The Company focuses on maintaining high standard of corporate governance in order to achieve sustainable development and enhance corporate performance especially the areas of internal control, fair disclosure and accountability to all shareholders. The Company's compliance with the code provisions and recommended best practices of the Corporate Governance Code are set out in the Corporate Governance Report contained in the 2013 annual report.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by Directors. Specific enquiries have been made to all the Directors, and each of the Directors has confirmed his compliance with the Model Code in connection with the Company's securities during the first half of 2014.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Period the Company made the following purchases of its own shares on the Stock Exchange:

Month of repurchase in 2014	Number of Shares repurchased	Purchase consideration per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
May	2,300,000	1.93	1.80	4,231

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

Corporate Governance and Other Information

SHARE OPTION SCHEMES

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

The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are substantially the same except for the subscription price which was the offer price of the Company's shares under the initial public offer for options granted under the Pre-IPO Option Scheme. A summary of the principle terms and conditions of the Pre-IPO Share Option Scheme and 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 of the Company dated June 16, 2011.

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

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

Name of Directors	Date of Grant (Note)	Exercise price per Share HK\$	As at January 1, 2014	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	As at June 30, 2014	Exercise period
Mr. Meng Yuxiao	June 3, 2011	1.20	7,200,000	–	–	–	–	7,200,000	January 14, 2012 to July 11, 2021
Mr. Deng Xuejun	June 3, 2011	1.20	7,200,000	–	–	–	–	7,200,000	January 14, 2012 to July 11, 2021
Mr. Hung, Randy King Kuen	June 3, 2011	1.20	7,200,000	–	–	–	–	7,200,000	January 14, 2012 to July 11, 2021
			21,600,000	–	–	–	–	21,600,000	

Note: The date of grant is deemed to be July 14, 2011 for financial reporting purposes.

Corporate Governance and Other Information

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

Name of Directors	Date of Grant	Exercise price per Share HK\$	As at January 1, 2014	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	As at June 30, 2014	Exercise period (Note)
Mr. Meng Yuxiao	July 2, 2013	1.00	–	4,800,000	–	–	–	4,800,000	January 2, 2014 to July 1, 2023
Mr. Deng Xuejun	July 2, 2013	1.00	–	4,800,000	–	–	–	4,800,000	January 2, 2014 to July 1, 2023
Mr. Hung, Randy King Kuen	July 2, 2013	1.00	–	4,800,000	–	–	–	4,800,000	January 2, 2014 to July 1, 2023
Mr. Xia Ni	July 2, 2013	1.00	–	12,000,000	–	–	–	12,000,000	January 2, 2014 to July 1, 2023
Mr. Shi Cuiming	July 2, 2013	1.00	–	500,000	–	–	–	500,000	January 2, 2014 to July 1, 2023
Dr. 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 Share Option Scheme of the Company as at June 30, 2014 are set out in Note 17 to the Interim Condensed Financial Information.

Corporate Governance and Other Information

DIRECTORS' INTERESTS IN SHARES

As at June 30, 2014, disclosures of interests required under Section 352 of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("SFO") and the Model Code are as follows:

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

As at June 30, 2014, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were 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 he was taken or deemed to have under such provisions of the SFO), or (b) 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 contained in the Listing Rules, were as follows:

Long positions in the Shares, underlying Shares and debentures

Name of Directors	The Company/ name of associated corporations	Nature of interests	Number of Shares held	Number of underlying Shares ⁽³⁾	Aggregate interests	Approximate percentage of interests
Mr. Zhao Bing	The Company	Interest of a controlled corporation	529,701,012 shares ⁽¹⁾	–	529,701,012	36.41%
	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	0.82%
Mr. Deng Xuejun	The Company	Beneficial interest	–	12,000,000	12,000,000	0.82%
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	1.17%
	Monitronix Limited ("Monitronix")	Beneficial interest	10 shares of HK\$1.00 each	–	–	50.00%
Mr. Xia Ni	The Company	Beneficial interest	200,000 shares	12,000,000	12,200,000	0.84%
Mr. Shi Cuiming	The Company	Beneficial interest	110,000 shares	500,000	610,000	0.04%
Dr. Ma Kwai Yuen	The Company	Beneficial interest	500,000 shares	500,000	1,000,000	0.07%
Dr. Lui Pan	The Company	Beneficial interest	–	500,000	500,000	0.03%

Notes:

- 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.
- 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 deemed to be interested in all the Shares held by Monitronix.
- 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" above.
- The Company's shares referred to above are ordinary shares of US\$0.001 each.

Save as disclosed above, at as June 30, 2014, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company and its associated corporation, within the meaning of Part XV of the SFO, which were required to be notified the Company and the Stock Exchange or to be entered in the register referred to in the SFO.

Corporate Governance and Other Information

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

Long positions in the Shares, underlying shares and debentures

As at June 30, 2014, the interests and short positions of the shareholders of the Company (the "Shareholders") (other than the Directors or chief executive of the Company) in the shares and underlying shares and debentures of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Interest in shares	Percentage of issued share capital
Kemy Holding	Beneficial owner	529,701,012	36.41%
Mr. Zhao Bing (Note)	Interest of controlled corporation	529,701,012	36.41%

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.

Save as disclosed above and as at June 30, 2014, the Directors were not aware of any interests or short positions owned by the Shareholders (other than the Directors or chief executive of the Company) in the shares, underlying shares and debentures of the Company which were required to be kept under Section 336 of the SFO.

CONFIRMATION OF NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

The Company's controlling shareholders, Kemy Holding, Mr. Zhao Bing (an Executive Director and the Chairman) and Ms. Shi Shuran (collectively the "Covenantors", as defined in the Non-competition Deed) entered into the Non-competition Deed (the "Deed", reference to the Company's listing prospectus) 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 period ended June 30, 2014.
- ii. In order to ensure that the Covenantors have complied with the Deed for the period ended June 30, 2014, the Company and the Broad have requested and the Covenantors have given a written confirmation on their compliance with the non-competition undertaking under the Deed.
- iii. The Board was aware of any matters regarding the compliance of the non-competition undertakings.
- iv. The independent non-executive Directors of the Company 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 period ended June 30, 2014. Having made all reasonable inquiries, they were satisfied that the Covenantors have complied with the Deed.
- v. There has not been any change in terms of the non-competition undertakings under the Deed since the Company's listing on the Stock Exchange.

Corporate Governance and Other Information

CHANGES IN INFORMATION OF DIRECTORS

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

Dr. Xu Wanqiang and Prof. Jiang Desheng have been appointed as an independent non-executive director of the Company with effect after the conclusion of the annual general meeting held on May 29, 2014.

Report on Review of Interim Condensed Financial Information



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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

To the board of directors of
CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed financial information set out on pages 25 to 48, which comprises the consolidated statement of financial position of China Fiber Optic Network System Group Ltd. as at June 30, 2014 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong

August 26, 2014

Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2014

		For the six months ended June 30,	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
REVENUE	3	983,587	775,639
Cost of sales		(719,792)	(570,068)
Gross profit		263,795	205,571
Other income	4	9,916	6,113
Selling and distribution expenses		(6,529)	(3,446)
Administrative expenses		(48,223)	(31,361)
Other expenses		(806)	(3,142)
Finance costs	5	(19,394)	(17,539)
PROFIT BEFORE TAX	5	198,759	156,196
Income tax expense	6	(39,527)	(27,061)
PROFIT FOR THE PERIOD		159,232	129,135
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation		375	1,986
Total comprehensive income for the period attributable to owners of the Company		159,607	131,121
Earnings per share attributable to ordinary equity holders of the Company:			
Basic	7	RMB0.109	RMB0.106
Diluted	7	RMB0.106	RMB0.106

Interim Consolidated Statement of Financial Position

June 30, 2014

	Notes	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,043,817	1,007,789
Prepaid land lease payments	8	24,520	24,829
Payments in advance		3,874	278
Goodwill		15,563	15,563
Entrusted loan receivables	9	50,000	50,000
Deferred tax assets		2,395	4,720
Total non-current assets		1,140,169	1,103,179
CURRENT ASSETS			
Inventories		125,217	28,457
Trade receivables	10	1,870,241	1,381,765
Prepayments, deposits and other receivables	11	9,059	116,539
Pledged bank balances	12	35,514	68,456
Cash and cash equivalents	12	481,008	769,259
Total current assets		2,521,039	2,364,476
CURRENT LIABILITIES			
Trade and notes payables	13	219,143	279,324
Other payables and accruals	14	547,406	432,875
Tax payable		154,448	135,660
Interest-bearing bank loans	15	294,518	403,399
Total current liabilities		1,215,515	1,251,258
NET CURRENT ASSETS		1,305,524	1,113,218
TOTAL ASSETS LESS CURRENT LIABILITIES		2,445,693	2,216,397

Interim Consolidated Statement of Financial Position

June 30, 2014

	Notes	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	15	278,608	166,079
Deferred income		14,060	6,217
Deferred tax liabilities		19,781	16,584
Total non-current liabilities		312,449	188,880
Net assets		2,133,244	2,027,517
EQUITY			
Equity attributable to owners of the Company			
Issued capital	16	9,331	9,346
Reserves		2,123,913	1,960,883
Proposed final dividend	18	–	57,288
Total equity		2,133,244	2,027,517

Zhao Bing
Director

Meng Yuxiao
Director

Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 2014

	Issued capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserve fund <i>RMB'000</i>	Special reserve <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Capital contribution reserve <i>RMB'000</i>	Capital redemption reserve <i>RMB'000</i>	Foreign translation reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Proposed final dividend <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2013	7,871	340,206	78,139	59,906	7,440	62,825	–	(1,163)	928,083	9,846	1,493,153
Profit for the period	–	–	–	–	–	–	–	–	129,135	–	129,135
Other comprehensive income for the period:											
Exchange difference on foreign currency translation	–	–	–	–	–	–	–	1,986	–	–	1,986
Total comprehensive income for the period	–	–	–	–	–	–	–	1,986	129,135	–	131,121
Equity-settled share option arrangements	–	–	–	–	1,056	–	–	–	–	–	1,056
Transfer from/(to) reserves	–	–	9,405	–	–	–	–	–	(9,405)	–	–
Final 2012 dividend declared	–	–	–	–	–	–	–	–	–	(9,846)	(9,846)
At June 30, 2013 (unaudited)	7,871	340,206	87,544	59,906	8,496	62,825	–	823	1,047,813	–	1,615,484
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 Period	–	–	–	–	–	–	–	–	159,232	–	159,232
Other comprehensive income for the Period:											
Exchange difference on foreign currency translation	–	–	–	–	–	–	–	375	–	–	375
Total comprehensive income for the Period	–	–	–	–	–	–	–	375	159,232	–	159,607
Repurchase and cancellation of shares (note 16)	(15)	(3,350)	–	–	–	–	15	–	(15)	–	(3,365)
Equity-settled share option arrangements (note 17)	–	–	–	–	6,773	–	–	–	–	–	6,773
Transfer from/(to) reserves	–	–	14,206	–	–	–	–	–	(14,206)	–	–
Final 2013 dividend declared (note 18)	–	–	–	–	–	–	–	–	–	(57,288)	(57,288)
At June 30, 2014 (unaudited)	9,331	536,773*	116,266*	59,906*	26,378*	62,825*	15*	(2,668)*	1,324,418*	–	2,133,244

* These reserve accounts comprise the consolidated reserves of RMB2,123,913,000 (December 31, 2013: RMB1,960,883,000) in the consolidated statement of financial position.

Interim Consolidated Statement of Cash Flows

For the six months ended June 30, 2014

		For the six months ended June 30,	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		198,759	156,196
Adjustments for:			
Depreciation	8	41,347	36,053
Amortization of prepaid land lease payments	8	309	309
Loss on disposal of items of property, plant and equipment	5	–	2,977
Interest on bank loans	5	19,394	17,539
Equity-settled share option expense	5	6,773	1,056
Interest income	4	(7,564)	(3,498)
Deferred income released	4	(1,117)	(490)
		257,901	210,142
Increase in inventories		(96,760)	(82,580)
Increase in trade receivables		(486,737)	(74,684)
Decrease in prepayments, deposits and other receivables		107,480	20,845
Decrease in trade and notes payables		(60,181)	(36,571)
Increase in other payables and accruals		81,390	12,862
		(196,907)	50,014
Cash generated from/(used in) operations		(18,392)	(17,482)
Interest paid		5,818	3,498
Income tax paid		(15,217)	(18,022)
		(224,698)	18,008
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received from entrusted loans		1,746	–
Purchases of items of property, plant and equipment		(47,782)	(142,522)
Proceeds from disposal of items of property, plant and equipment		–	7,040
Government grants		8,960	–
Decrease/(increase) in pledged bank balances		32,942	(980)
Increase in time deposits with original maturity of over three months when acquired		(136,500)	–
Entrusted loans granted		–	(50,000)
		(140,634)	(186,462)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for repurchase of ordinary shares	16	(3,365)	–
New bank loans		305,960	412,460
Repayment of bank loans		(305,098)	(420,150)
Dividends paid	18	(57,288)	(9,846)
		(59,791)	(17,536)
Net cash flows used in financing activities		(59,791)	(17,536)

Interim Consolidated Statement of Cash Flows

For the six months ended June 30, 2014

		For the six months ended June 30,	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(425,123)	(185,990)
Cash and cash equivalents at beginning of period		769,259	795,823
Effect of foreign exchange rate changes, net		372	543
CASH AND CASH EQUIVALENTS AT END OF PERIOD		344,508	610,376
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		269,036	328,394
Non-pledged time deposits		211,972	281,982
Cash and cash equivalents as stated in the consolidated statement of financial position	12	481,008	610,376
Non-pledged time deposits with original maturity of over three months when acquired	12	(136,500)	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		344,508	610,376

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

1. CORPORATE INFORMATION

China Fiber Optic Network System Group Ltd. (the “Company”) is a limited liability company incorporated in the Cayman Islands on August 7, 2006 under the Companies Law of the Cayman Islands. The registered office address of the Company is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, Cayman Islands. The Company’s principal place of business in Hong Kong is located at Office Suite 2001-02, 20th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

During the six months ended June 30, 2014 (the “Period”), the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the production and sale of fiber optic patch cords and other accessories. There were no significant changes in the nature of the Group’s principal activities during the Period.

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

2.1 BASIS OF PREPARATION

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

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended December 31, 2013.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2013, except for the adoption of new standards and amendments issued by the International Accounting Standards Board that are mandatory for annual periods beginning on or after January 1, 2014. The adoption of these new standards and amendments has had no significant financial effect on the financial position or performance of the Group.

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

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

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

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

Entity-wide disclosures

Information about products

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

For the six months ended June 30,				
	2014		2013	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Fiber optic patch cords	678,069	68.9	606,890	78.2
Connection and distribution product series	248,354	25.3	120,644	15.6
Equipment room accessories	57,164	5.8	48,105	6.2
	983,587	100.0	775,639	100.0

Geographical information

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

For the six months ended June 30,		
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Domestic*:		
— Mainland China	893,453	696,401
Overseas:		
— New Zealand	55,746	55,169
— Australia	31,706	2,824
— Ireland	—	20,231
— Others	2,682	1,014
	90,134	79,238
	983,587	775,639

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

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

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

Entity-wide disclosures *(continued)*

Information about major customers

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

For the six months ended June 30,		
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Customer A	309,475	225,688
Customer B	**	93,353
Customer C	**	91,101

** Less than 10%

4. OTHER INCOME

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

For the six months ended June 30,		
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Government grants*	580	1,100
Deferred income released	1,117	490
Interest income	7,564	3,498
Rental income	643	854
Others	12	171
Total other income	9,916	6,113

* There are no unfulfilled conditions or contingencies relating to these grants.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

5. PROFIT BEFORE TAX

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

		For the six months ended June 30,	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Cost of inventories sold		719,792	570,068
Employee benefit expense (including Directors' remuneration):			
Wages and salaries		15,605	10,749
Equity-settled share option expense	17	6,773	1,056
Pension scheme contributions			
— Defined contribution fund		2,417	1,314
Housing fund			
— Defined contribution fund		420	239
Total employee benefit expense		25,215	13,358
Interest on bank loans		19,394	17,539
Auditors' remuneration		1,100	1,000
Depreciation of items of property, plant and equipment	8	41,347	36,053
Amortization of prepaid land lease payments	8	309	309
Operating lease rental in respect of buildings		998	594
Loss on disposal of items of property, plant and equipment		—	2,977
Research and development costs		226	302

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

6. INCOME TAX

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

	For the six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Mainland China		
Charge for the period	34,005	25,748
Deferred	5,522	1,313
Total tax charge for the period	39,527	27,061

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.
- (b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the Period.
- (c) No provision for Canada profits tax has been made as the Group had no taxable profits derived from or earned in Canada during the Period.
- (d) Except for Sifang Telecom which is entitled to a preferential corporate income tax ("CIT") rate of 15%, other PRC subsidiaries are subject to the PRC CIT rate at 25% during the Period.

In 2011, Sifang Telecom has been identified as 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 Period, Sifang Telecom is in the process of renewing the high and new technology enterprise certificate, and management does not foresee any obstacles for the renewal.

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.

Pursuant to the resolution of the board of directors of Sifang Telecom dated July 24, 2014, Sifang Telecom will distribute dividends of not more than 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund) in respect of the Period to the Company and the remaining distributable profit will be used for the business development of Sifang Telecom and will not be distributed to the Company. Therefore, a deferred tax liability of RMB3,197,000 (June 30, 2013: RMB2,116,000), representing 10% withholding tax on 25% of Sifang Telecom's distributable profit, has been provided for during the Period.

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,456,970,000 (six months ended June 30, 2013: 1,217,300,000) in issue during the Period.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

The calculation of the diluted earnings per share amount is based on the profit for the Period 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 Period, 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:

For the six months ended June 30,		
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	159,232	129,135

For the six months ended June 30,		
	2014	2013
	'000	'000
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,456,970	1,217,300
Effect of dilution — weighted average number of ordinary shares:		
Share options	45,342	—
	1,502,312	1,217,300

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

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

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

	Property, plant and equipment RMB'000 (note (a))	Prepaid land lease payments RMB'000 (note (b))
Carrying amount at January 1, 2014	1,007,789	24,829
Additions	77,375	–
Depreciation/amortization charged for the Period (note 5)	(41,347)	(309)
Carrying amount at June 30, 2014 (unaudited)	1,043,817	24,520

Notes:

- (a) At the end of the reporting period, certain of the Group's property, plant and equipment with a net carrying amount of RMB304,975,000 (December 31, 2013: RMB500,305,000) have been pledged to secure the Group's interest-bearing bank loans (note 15).
- (b) As at June 30, 2014, prepaid land lease payments with a net book amount of RMB18,496,000 (December 31, 2013: RMB20,909,000) have been pledged to banks for bank loans granted to the Group (note 15).

9. ENTRUSTED LOAN RECEIVABLES

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

As at June 30, 2014, the Group hold trade payables due to Simingshengguang with an aggregate amount of RMB97,436,000 (December 31, 2013: RMB58,409,000) (note 13) as collateral over these entrusted loan receivables. The Directors are of the opinion that these entrusted loan receivables are neither past due nor impaired.

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

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

10. TRADE RECEIVABLES

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Trade receivables	1,870,241	1,381,765
Impairment	—	—
	1,870,241	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 credit terms 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:

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Within 1 month	411,034	249,846
1 to 3 months	357,143	388,280
3 to 6 months	172,402	445,256
6 to 12 months	907,703	279,129
12 to 16 months	18,588	17,144
Over 16 months	3,371	2,110
	1,870,241	1,381,765

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

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Neither past due nor impaired	1,845,947	1,266,491
Past due but not impaired		
Less than 1 month past due	15,763	56,013
Over 1 month but within 3 months past due	2,927	54,179
Over 3 months past due	5,604	5,082
	1,870,241	1,381,765

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

10. TRADE RECEIVABLES *(continued)*

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

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

As at June 30, 2014, certain trade receivables with an aggregate amount of RMB125,284,000 (December 31, 2013: RMB178,864,000) have been pledged to secure the Group's interest-bearing bank loans (note 15).

At the end of the reporting period, trade receivables of the Group denominated in US\$ amounted to RMB162,732,000 (December 31, 2013: RMB189,663,000).

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Prepayments for purchase of raw materials	2,571	112,672
Prepaid land lease payments to be amortized within one year	619	619
Other receivables	5,869	3,248
	9,059	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.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

12. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Cash and bank balances	304,550	463,459
Time deposits with original maturity of less than 3 months	75,472	374,256
Time deposits with original maturity of over 3 months	136,500	—
	516,522	837,715
Less: pledged bank balances for:		
— Issuance of notes payable	29,915	68,456
— Issuance of letter of credit	1,860	—
— Issuance of letter of guarantee	3,508	—
— Credit cards	231	—
	(35,514)	(68,456)
	481,008	769,259

Cash and cash equivalents are deposited with creditworthy banks with no recent history of default.

13. TRADE AND NOTES PAYABLES

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Trade payables	173,878	158,039
Notes payable	45,265	121,285
	219,143	279,324

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

13. TRADE AND NOTES PAYABLES (continued)

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

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Within 3 months	186,223	161,088
3 months to 6 months	19,139	109,796
6 months to 1 year	6,948	2,612
Over 1 year	6,833	5,828
	219,143	279,324

The trade payables are non-interest-bearing and generally have credit terms ranging from 3 months to 1 year granted by the Group's creditors. As at June 30, 2014, trade payables with an aggregate amount of RMB97,436,000 (December 31, 2013: RMB58,409,000) were held as collateral for these entrusted loan receivables (note 9).

Notes payable are interest-free with terms of maturity of within 180 days. As at June 30, 2014, notes payable were secured by the pledge of cash at banks of RMB29,915,000 (December 31, 2013: RMB68,456,000).

14. OTHER PAYABLES AND ACCRUALS

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
<i>Payables related to:</i>		
Taxes and surcharges	445,918	369,909
Payroll and welfare	12,287	8,566
Construction of property, plant and equipment	75,785	42,596
Professional fees	1,314	1,314
Advance from government agencies	–	1,500
Others	4,730	3,165
	540,034	427,050
Accruals	7,372	5,825
	547,406	432,875

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

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

15. INTEREST-BEARING BANK LOANS

	Notes	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Secured	(a)	420,898	515,325
Unsecured	(b)	152,228	54,153
		573,126	569,478
Repayable:			
Within one year		294,518	403,399
In the second year		216,281	146,817
In the third to fifth years, inclusive		61,454	18,279
Beyond five years		873	983
		573,126	569,478
Balances classified as current liabilities		294,518	403,399
Balances classified as non-current liabilities		278,608	166,079

Notes:

- (a) As at June 30, 2014, included in secured bank loans is a bank loan of RMB2,064,000 (December 31, 2013: RMB2,162,000) which is denominated in Hong Kong dollars ("HKD"), bears interest at 3.1% below the Hong Kong dollar prime rate per annum and is repayable by 120 monthly equal instalments commencing on March 3, 2013.

The bank loans were secured by:

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Secured by — net book amount of:		
Property, plant and equipment (note 8)	304,975	500,305
Prepaid land lease payments (note 8)	18,496	20,909
Trade receivables (note 10)	125,284	178,864

- (b) As at June 30, 2014, the Group's unsecured bank loan which bears interest at 3% above the prevailing London Interbank Offered Rate per annum and is repayable within three years by instalments.

As at June 30, 2014, bank loans of RMB117,228,000 (December 31, 2013: RMB54,153,000) of China Fiber Optic (2013) Limited, a direct wholly-owned subsidiary of the Company, was jointly guaranteed by the Company and Waywise Corporation Limited (Hong Kong), a direct wholly-owned subsidiary of the Company.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

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

As at June 30, 2014, except for the bank loans bearing interest at floating rates detailed in notes (a) and (b) above, all other bank loans bear interest at fixed rates per annum in the range of 4.23% to 7.80% (December 31, 2013: 4.24% to 8.20%).

As at June 30, 2014, except for the bank loans of RMB191,062,000 (December 31, 2013: RMB127,316,000) denominated in United States dollars ("USD") and bank loans detailed in note (a) above denominated in HKD, all other bank loans are denominated in RMB.

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

16. ISSUED CAPITAL

During the Period, the Company repurchased its 2,300,000 ordinary shares with par value of USD0.001 each at prices ranging from HKD1.80 to HKD1.93 per share at a total consideration of approximately HKD4,231,000 (equivalent to RMB3,365,000). The repurchased 2,300,000 ordinary shares were cancelled during the Period. The premium of approximately HKD4,229,000 (equivalent to RMB3,350,000) paid on the repurchase of these shares was debited to the share premium account and an amount of USD2,300 (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.

17. 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 of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

17. SHARE OPTION SCHEMES *(continued)*

In addition, the Company adopted a new share option scheme (the “New Option Scheme”) which has been conditionally approved by a resolution of the shareholders passed on June 3, 2011 and will remain in force for 10 years from that date. The Directors may, at their absolute discretion, invite any full-time or part-time employees, executives or officers of the Company or any member of the Group (including executive directors, non-executive directors and independent non-executive directors), advisors and consultants of the Group to take up options to subscribe for shares.

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. 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.

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

17. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Old Option Scheme as at June 30, 2014 and December 31, 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\$382,000 (equivalent to approximately RMB310,000 for the Period (six months ended June 30, 2013: HK\$1,302,000 (equivalent to approximately RMB1,056,000)).

The following share options were outstanding under the New Option Scheme as at June 30, 2014 and December 31, 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 in 2013 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\$8,115,000 (equivalent to approximately RMB6,463,000) for the Period (six months ended June 30, 2013: Nil).

The Company had 30,733,000 share options exercisable as at June 30, 2014 (December 31, 2013: 14,400,000 shares) with a weighted average exercise price of HK\$1.12 per share (December 31, 2013: HK\$1.20 per share).

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

17. SHARE OPTION SCHEMES (continued)

The fair values of equity-settled share options granted under the Old Option Scheme and the New Option Scheme were estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	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.

As at June 30, 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 RMB603,000) and share premium of US\$13,102,000 (equivalent to approximately RMB80,614,000 (before issue expenses)).

At the date of approval of these financial statements, the Company had 98,000,000 share options outstanding under the share option schemes which represented approximately 6.74% of the Company's shares in issue as at that date.

18. DIVIDENDS

(a) Dividend attributable to the Period

Pursuant to the resolutions of the board of directors dated on August 26, 2014, the Directors resolved not to pay an interim dividend to shareholders for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

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

	RMB'000
Final dividend in respect of the financial year ended December 31, 2013 of HKD5 cents per ordinary share	
Declared during the Period	57,288
Paid during the Period	(57,288)
	—

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

19. COMMITMENTS

(a) Capital commitments

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

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Contracted, but not provided for:		
— Property, plant, and machinery	30,905	35,786

(b) Operating lease arrangements — as lessor

As lessor, the Group leases certain part of its office buildings under operating lease arrangements with lease terms ranging from one to five years. As at June 30, 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Within one year	2,258	1,729
In the second to fifth years, inclusive	4,257	4,404
After five years	218	228
	6,733	6,361

(c) Operating lease arrangements — as lessee

The Group leases certain of its office buildings under operating lease arrangements for terms of three years. As at June 30, 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000
Within one year	2,012	1,689
In the second to fifth years, inclusive	2,448	2,182
	4,460	3,871

Notes to Interim Condensed Financial Information

For the six months ended June 30, 2014

20. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in this financial information, the Group had the following transaction with a related party for the six months ended June 30, 2014:

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 Period, the rental paid by the Group to Steel Magnolia amounted to RMB122,000 (six months ended June 30, 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:

	For the six months ended June 30,	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Basic salaries and other benefits	2,467	2,483
Equity-settled share option expense	6,731	1,056
Pension scheme contributions	78	77
	9,276	3,616

21. EVENT AFTER THE REPORTING PERIOD

In August 2014, the Group's wholly owned subsidiary China Fiber Optic (Japan) Limited has entered into a share subscription agreement with Advanced Photonics, Inc. ("APi") of Japan. Upon completion of the subscription of 4,000 shares of common stock to be issued by APi with a total issue price of JPY240,000,000 (equivalent to approximately RMB14,431,000), the Company will become the largest shareholder of APi with a shareholding interest of approximately 8.48% before APi's senior management exercises their employee stock options granted to them under a share option scheme (the "Options"), and 6.84% after APi's senior management exercises the Options.

APi shall transfer the manufacturing technology relating to the Active Optical Cable to the Company's subsidiary, Shanghai Net Miles Fiber Optics Technology Co., Ltd. Particulars of the share subscription please refer to the Company's announcement dated August 14, 2014.

22. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorized for issue by the board of directors on August 26, 2014.