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中國光纖網絡系統集團有限公司
CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 3777)

**UNUSUAL PRICE AND TRADING VOLUME MOVEMENTS
AND
FURTHER CLARIFICATION ANNOUNCEMENT**

This announcement is made at the request of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The board of directors (the “**Board**”) of China Fiber Optic Network System Group Limited (the “**Company**”) noted the decrease in the price and increase in the volume of the shares of the Company in the afternoon of October 30, 2015. Having made such enquiry with respect to the Company as is reasonable in the circumstances, the Board confirms that, save as disclosed below, it is not aware of any reasons for such movements or of any information which must be announced to avoid a false market in the Company’s securities or of any inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance.

Further to the Company’s clarification announcement dated September 30, 2015 (the “**First Clarification Announcement**”), the Company noted that a subsequent report (the “**Second Negative Report**”) was issued on October 29, 2015 by Emerson Analytics Co. Ltd. (“**Emerson Analytics**”) following its first report issued on August 7, 2015 (the “**First Negative Report**”).

The First Negative Report and Second Negative Report disclosed that Emerson Analytics may have short position in the shares of the Company (the “**Shares**”) and therefore Emerson Analytics may stand to realize significant gains in the event that the price of the Shares declines. As such, the Board would like to emphasize that shareholders of the Company and potential investors should exercise extreme caution in reading the First Negative Report and Second Negative Report and that their

allegations should be read in light of the significant gains Emerson Analytics may stand to realize. As explained in detail below, the Second Negative Report contains a concoction of errors of fact, deliberately misleading statements, and unfounded speculations which the Company believes are combined in the First Negative Report with a view to manipulate the price of the Shares and undermine the Company's reputation.

The Company hereby responds to and refutes those allegations made in the Second Negative Report as follows.

The SAIC filings of Sifang Telecom were never a basis or a means used by the Company to prepare its consolidated financial statements for the Group

The Company would like to emphasize to shareholders and potential investors that the State Administration of Industry and Commerce of Hebei Province ("SAIC") filings of Hebei Sifang Telecommunication Equipment Co., Ltd. ("Sifang Telecom") have never been a basis or a means used by the Company to prepare its consolidated financial statements for the Group.

Sifang Telecom maintains financial records in its book of accounts. Sifang Telecom uses its book of accounts to compile financial statements for various reporting purposes with different basis of reporting. The Group's consolidate financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), whereas the Sifang Telecom's financial statements filed with SAIC were compiled on a different basis as explained below.

Emerson Analytics, once again, falsely accused the Group of inflating its revenue by confusing and misleading the public that Sifang Telecom's financial statements filed with SAIC should be a reflection of the Group's consolidated financial statements. The Second Negative Report further attempted to confuse the public by labeling the difference between balances in SAIC filings and the balances of Group's consolidated financial statements as an accounting error on the Group's consolidated financial statements. In fact, such difference was merely because the financial statements filed with the SAIC and the Group's consolidated financial statements were prepared under different bases. Sifang Telecom's financial statements filed with SAIC should not be a point of reference for shareholders and potential investors to assess the accuracy and reasonableness of the Group's consolidated financial statements.

The Second Negative Report disregarded all the facts and opinions from professional third parties, overlooked the fact that its First Negative Report presented a sales contract titled "Standard Materials Procurement Contract" which Sifang Telecom had no records of issuing (Sifang Telecom Standard Contract is titled "Product Sales Contract"), and recklessly stressed a so-called expectation of "delisting". Shareholders and investors should be cautioned that Emerson Analytics has never revealed its true identity nor their registered business address. Its credentials and credibility are both extremely questionable.

Emerson Analytics confuses the public by labelling the different accounting conventions of revenue recognition used respectively in the Group’s consolidated financial statements and SAIC filings as an accounting error on the Group’s consolidated financial statements

The Second Negative Report alleged on its page 2 that “sales made in one year with relevant value added tax (“VAT”) invoices made in the next year, or the year after next are completely ignored in Sifang Telecom’s filings with the SAIC”. It further alleged that “any treatment that excludes the bulk of revenue from accounting treatment is a serious accounting error”, and “such arbitrary revenue recognition defies all fundamental accounting principles.”

The Company hereby reiterates that:

1. In order to renew annual business licenses, companies in China need to file a “Company Annual Inspection Report” with the SAIC which includes financial statements.
2. Sifang Telecom’s revenue reported to the SAIC from 2008 to 2012 were based upon both delivery of goods and issuance of VAT invoices. Therefore, “sales made in one year with relevant VAT invoices made in the next year, or the year after” were not included by Sifang Telecom in its current year revenue reported to the SAIC. Such basis of revenue recognition was audited by the PRC auditors 石家莊財信會計師事務所有限公司 (the “**Shijiazhuang Auditors**”) engaged by Sifang Telecom for the purpose of SAIC filing.
3. The Company has obtained a legal opinion dated September 29, 2015 from its PRC legal counsel Grandall Law Firm which confirmed that as Sifang Telecom had submitted its audited financial statements and auditors’ reports pursuant to Clause 9 of the “Measures for the Annual Inspection of Enterprises (企業年度檢驗辦法)” and had passed the foreign invested enterprise unified annual inspection for 2008 to 2012, there were no violations of any relevant laws and regulations.
4. The Group’s consolidated financial statements from 2008 to 2012 reported revenue in accordance with IFRS. SAIC does not require companies to prepare its filings in accordance with IFRS. Therefore, the difference in reported revenue of the Group’s consolidated financial statements and filings made with SAIC is in no way an accounting error on the Group’s consolidated financial statements.
5. The Company has also presented a table in the First Clarification Announcement to explain such difference. An independent professional party was engaged to perform agreed-upon procedures on each item of that table.

The Group’s revenue in its consolidated financial statements has always been reported under the accrual basis which disregarded whether VAT invoices have been issued or not. It is unreasonable to deduce that the Group’s consolidated financial statements are inaccurate simply by referring to Sifang Telecom’s revenue in the SAIC filings which were not prepared under IFRS.

Similarly, Sifang Telecom's SAIC filings were never used as a basis or a means by the Group to report revenue on its consolidated financial statements. The allegation made by Emerson Analytics in its Second Negative Report that revenue reported in the audited consolidated financial statements was inflated is illogical, because even though Sifang Telecom did not report RMB 1.03 billion in revenue in its 2012 SAIC filings, the Group's consolidated revenue included this RMB 1.03 billion which were sales made by Sifang Telecom but VAT invoices were not issued. There were no accounting errors in the Group's consolidated revenue. The Group has never breached any accounting convention on revenue recognition in its consolidated financial statements. Emerson Analytics confuses the public by labelling the different accounting conventions on revenue recognition on the Group's consolidated financial statements and SAIC filings as accounting error on the Group's consolidated financial statements. The Group's consolidated financial statements prepared under IFRS from 2008 to 2014 were audited by Ernst & Young with unqualified opinions on these consolidated financial statements. Ernst & Young has not withdrawn their audit opinions for the Group's consolidated financial statements from 2008 to 2014 up to the date of this Further Clarification Announcement.

Inventory balances reported in SAIC filings were irrelevant to whether the Group's consolidated financial statements were fairly stated

The Second Negative Report alleged that Sifang Telecom had RMB 1.03 billion of "Sales made in current year but VAT invoices were not yet issued" for the year of 2012 as shown on page 5 of the First Clarification Announcement. It further alleged that Sifang Telecom should have more than RMB 1.03 billion of inventory at the end of 2012, but Sifang Telecom only reported RMB 79.60 million of inventory in its 2012 filing with SAIC. The Second Negative Report questioned the exclusion of "finished-goods under delivery but not yet recognized as revenue" from the inventory.

The Company confirms that the inventory balances in the book of accounts of Sifang Telecom, including inventory balances related to "sales made in current year but VAT invoices were not yet issued" from 2012 and before, was approximately RMB 1.25 billion as at the end of 2012.

For reporting in accordance with IFRS, the inventory balance on the book of accounts of Sifang Telecom was adjusted by, among other things, goods shipped to customers to derive the IFRS consolidated inventory balances for the purpose of compilation of the consolidated financial statements of the Group. The Group's consolidated inventory balances under IFRS have always been reported under the accrual basis regardless of whether output VAT invoices have been issued or not, and regardless of whether input VAT invoices have been received or not.

On the other hand, for SAIC reporting purposes, the inventory balance on the book of accounts of Sifang Telecom as at the end of 2012 was adjusted by, among other things, payments received from customers on "sales made in current year but VAT invoices were not yet issued" from 2012 and before, by the Shijiazhuang Auditors, to derive the inventory balance on the SAIC filing for 2012. The Company confirms that advances from customers in the book of accounts of Sifang Telecom,

which included payment received from customers on “sales made in current year but VAT invoices were not yet issued” from 2012 and before, was approximately RMB 1.20 billion as at the end of 2012. The inventory balance on the SAIC filings of 2012 was approximately RMB 79.60 million.

The Company would like to reiterate that SAIC does not require companies to prepare its filings in accordance with IFRS. Inventory balances in the SAIC filings were not prepared under IFRS. Inventory balances in the SAIC filings were never used as a basis or a means by the Company to report revenue or inventory on its consolidated financial statements of the Group. It is groundless to accuse the Group that there are serious accounting errors in the Group’s consolidated revenue or inventory balances by referring to Sifang Telecom’s inventory balances in the SAIC filings which were prepared under a basis other than IFRS. Inventory balances reported in SAIC filings were irrelevant to whether the Group’s consolidated financial statements were fairly stated.

The Two Revenue Figures reported on the HPFIE Web Site by no means reflect the consolidated revenue reported by the Group

The Second Negative Report referred to the “Top 100 Hebei Enterprises 2014 Revealed” found on the web site (the “**HPFIE Web Site**”) of Hebei Province Federation of Industrial Economics (the “**HPFIE**”), a semi-official civic association, which disclosed the revenue of Sifang Telecom as RMB 458 million and RMB 559 million respectively for 2013 and 2014 (the “**Two Revenue Figures**”), to question whether the Two Revenue Figures might be the true revenue of Sifang Telecom in 2013 and 2014.

The Company has made due enquiry with Sifang Telecom and confirms that the Two Revenue Figures were provided by the public relations personnel of Sifang Telecom to the HPFIE voluntarily by reference to the basis of revenue originally adopted for SAIC filing, i.e. “sales made in current year for which VAT invoices were issued in current year”. Hence, the Two Revenue Figures on the HPFIE Web Site differ significantly from the current records of 2013 and 2014 revenue figures shown in the SAIC filings which were reported under the basis of the sum of “sales made in current year for which VAT invoices were issued in current year” and “sales made in previous years for which VAT invoices were issued in current year”.

The Company would like to point out that the Two Revenue Figures were not reported on the same basis as the revenue reported by Sifang Telecom in its book of accounts, tax returns, or its financial statements presented to the Company for purpose of compiling IFRS consolidated financial statements of the Group. Therefore, the Two Revenue Figures reported on the HPFIE Web Site by no means reflect the consolidated revenue reported by the Group.

The Two Revenue Figures provided by the public relations personnel of Sifang Telecom were approved by a member of senior management of Sifang Telecom. The Company is in the process of strengthening internal control measures to monitor and authorize personnel of Sifang Telecom on disclosure of information to external parties. The Company will require all personnel of Sifang

Telecom to obtain prior review and approval by a working group consisting of members of senior management of Sifang Telecom and the Company, before disclosing historic or prospective financial information to external parties.

Conclusion

The SAIC filings of Sifang Telecom have never been a basis or a means used by the Company to prepare its consolidated financial statements for the Group.

The Second Negative Report, together with the First Negative Report, represent attempts by Emerson Analytics to create confusion over the integrity of the Group's consolidated financial statements, by comparing it with other financial reports of a subsidiary of the Company (i.e. Sifang Telecom) prepared for a completely different purpose and under a different basis.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
China Fiber Optic Network System Group Ltd.
Zhao Bing
Chairman and Executive Director

Hong Kong, November 2, 2015

As at the date of this announcement, the executive directors of the Company are Mr. Zhao Bing, Mr. Meng Yuxiao, Mr. Deng Xuejun, Mr. Hung, Randy King Kuen and Mr. Xia Ni; and the independent non-executive directors of the Company are Mr. Shi Cuiming, Dr. Ma Kwai Yuen, Dr. Lui Pan, Dr. Xu Wanqiang and Prof. Jiang Desheng.