O-Net Communications (Group) Limited
昂納光通信(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 877

GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator

CLSA ASIA-PACIFIC MARKETS

Joint Lead Managers and Joint Bookrunners

CLSA ASIA-PACIFIC MARKETS

Piper Jaffray

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

O-Net Communications (Group) Limited
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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**193,280,000 Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**19,328,000 Shares (subject to adjustment)**
Number of International Offer Shares	**:**	**173,952,000 Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$2.90 per Hong Kong Offer Share plus brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**HK$0.01 per Share**
Stock Code	**:**	**877**

Sole Sponsor and Sole Global Coordinator

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ASIA-PACIFIC MARKETS

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited ("HKSE"), Hong Kong Securities Clearing Company Limited and The Securities and Futures Commission of Hong Kong ("SFC") take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong takes no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by an agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Over-allotment Grantors), on the Price Determination Date, which is expected to be on or around 23 April 2010 and, in any event, no later than 24 April 2010. The Offer Price will be not more than HK$2.90 and is currently expected to be not less than HK$2.17. If, for any reason, the Offer Price is not agreed by 24 April 2010 between the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Over-allotment Grantors), the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors".

The Sole Global Coordinator, on behalf of the Underwriters, may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering in which event an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) no later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the section headed "Structure of the Global Offering" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator, on behalf of the Underwriters, if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the HKSE. Such grounds are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – The Public Offer – Grounds for termination" in this prospectus. The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act") and may not be offered or sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold or delivered to Qualified Institutional Buyers in reliance on Rule 144A or other exemption(s) from registration under the US Securities Act or outside the United States in reliance on Regulation S under the US Securities Act.

19 April 2010

Our Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable.

Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2]	11:30 a.m. on 22 April 2010
Application lists open[3]	11:45 a.m. on 22 April 2010
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on 22 April 2010
Latest time to give electronic application instructions to HKSCC[4]	12:00 noon on 22 April 2010
Latest time to complete payment of **White Form eIPO** applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on 22 April 2010
Application lists close[3]	12:00 noon on 22 April 2010
Expected Price Determination Date	23 April 2010
Announcement of: • the Offer Price • the level of applications in the Hong Kong Public Offering; • the level of indications of interest in the International Offering; and • the basis of allotment of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at **www.o-netcom.com**[5] and the website of the HKSE at **www.hkexnews.hk**	28 April 2010
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see the section headed "How to Apply for Hong Kong Offer Shares – 10. Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies") from	28 April 2010
Results of allocations in the Hong Kong Public Offering to be available at **www.iporesults.com.hk** with a "search by ID" function from	28 April 2010
Dispatch of Share certificates on or before[6]	28 April 2010
Dispatch of White Form e-Refund payment instructions/ refund cheques (if applicable) on or before	28 April 2010
Dealings in Offer Shares on the HKSE to commence at	9:30 a.m. on 29 April 2010

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12:00 noon on 22 April 2010, the application lists will not open on that day. See the section headed "How to Apply for Hong Kong Offer Shares – 7. When May Applications Be Made – (e) Effect of Bad Weather Conditions on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares – 6. Applying by giving electronic application instructions to HKSCC" in this prospectus.

(5) The Company's website and all the information contained thereon do not form part of this prospectus.

(6) Share certificates are expected to be issued on 28 April 2010 but will only become valid certificates of title upon the Global Offering becoming unconditional in all respects and neither of the Underwriting Agreements being terminated in accordance with its terms, with the latest time for termination of the Underwriting Agreements to be at 8:00 a.m. on the Listing Date.

You should read carefully the sections headed "Underwriting", "How to Apply for Hong Kong Offer Shares" and "Structure of the Global Offering" in this prospectus for details relating to the structure of the Global Offering and how to apply for the Hong Kong Offer Shares.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on as having been authorized by us, the Sole Sponsor, any of the Underwriters, the Over-allotment Grantors, any of their respective directors, agents, employees, advisors or affiliates, or any other person or party involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial information appearing elsewhere in this prospectus. As this is a summary, it does not contain all the information that may be important to you and we urge you to read the entire prospectus carefully before making your investment decisions. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read this section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading supplier of passive optical networking subcomponents, components, modules and subsystems used in high-speed telecommunications and data communications networks. We design, manufacture and sell our products and develop solutions with our customers based upon their product needs and specifications.

Fiber optic components in general can be classified, based on their functions, into two categories – passive components and active components. Passive components are those which only pass on a signal but do not alter the signal's basic characteristics or transmission format. Typical passive components include WDMs, isolators, attenuators, amplifiers, couplers, connectors, and optical switches. Active components are those which process a signal and change its basic characteristics or transmission format. Examples include lasers, tunable lasers, transmitters, receivers, transceivers, media converters, and transponders. Many active components contain passive components. Our products are predominantly in the passive component category, although we do produce certain active components for our customers. According to Infostone, the global sales revenues of passive components and active components in 2009 were approximately US$0.9 billion and US$3.2 billion, respectively. As such, the sales revenues of passive components in 2009 represented approximately 21.9% of the total sales revenues of the global market of fiber optic components. We have leading market positions in several key passive optical products including free space optical isolators, WDMs, EDFAs and VOAs[1]. The table below sets forth our market share for these products during the Track Record Period:

	Market Share[1]		
	For the year ended December 31		
	2007	2008	2009
All passive components	3.9%	4.0%	5.1%
Free space optical isolators for transmission applications	33.9%	33.4%	33.8%
WDM products	7.7%	7.8%	10.0%
VOA products	3.2%	3.2%	3.2%
EDFA	3.5%	3.7%	2.8%

(1) Based on the market research report commissioned by us and prepared by Infostone Communication Consultant (Shenzhen) Ltd., an independent market research firm in China. For more information on Infostone, please refer to the section headed "Industry Overview – About this Section" in this prospectus.

We were incorporated in 2000 as a joint-venture between Hong Kong Kaifa, a wholly-owned subsidiary of Shenzhen Kaifa, and Mandarin IT Fund I, a private equity fund established in 2000. Shortly after our incorporation, we set up a wholly foreign owned subsidiary in China, O-Net Shenzhen. O-Net Shenzhen acquired all the assets of the fiber optics department of Shenzhen Kaifa in 2000.

We are headquartered in Shenzhen, China, where we manufacture our optical subcomponents, components, modules and subsystems at our facilities. Through internal research and development, we have developed 40 series of products that we sell or integrate into our optical communications products. We have internally developed processes, such as our factory information system (FIS), that allow us to produce technically-advanced solutions to meet our customers' needs. More details about our FIS and manufacturing processes can be found in the section headed "Business – Production Process" of this prospectus.

Our customers include telecommunications and data communications network system vendors located around the world and their contract manufacturers. Our principal customers include leading telecommunications system vendors, such as Alcatel-Lucent and Huawei, as well as the contract manufacturers to Ciena and Infinera. The percentage of revenue contributed by Alcatel-Lucent, Huawei and these contract manufacturers was approximately 50.2%, 46.5% and 39.8% for the years ended 31 December 2007, 2008 and 2009, respectively. These customers in turn sell systems to telecommunications and data communications service providers and cable TV operators who increasingly require higher bandwidth networks to support advanced telecommunications and data communications applications. We work with customers from the earliest stages of their equipment design process to ensure that we can be their preferred choice as their supplier. By doing so, we believe that our products will be better tailored to the specific needs of our customers, which will strengthen our business relationship with our customers. In turn, we expect this will create more business opportunities for us.

We believe that our broad product offering, vertically-integrated business model and emphasis on high-bandwidth products for use in 10G and newer 40G networks give us a competitive advantage. Our broad line of products expand optical bandwidth and redirect and amplify optical signals, as well as monitor and protect wavelength performance and assist signal transmission and reception across optical networks. Optical network system vendors use our products to increase the performance of optical networks and provide networks with flexible and scalable bandwidth to support increases of data traffic on the Internet and other public and private networks.

We believe we have accumulated strong core competencies in several technology platforms in our industry which have enabled, and will continue to enable, us to develop high performance and cost-competitive products and solutions to serve our customers. Particularly, in recent years we have launched a series of next-generation products targeted at fast-growing 40G and 100G applications and tunable applications. We are also in the process of developing advanced next-generation products which we expect to be released to the market over the course of the next year.

As a result of the global financial crisis in 2008, our customers initially reduced the orders that they placed with the Group which affected our performance in the fourth quarter of 2008 and the first quarter of 2009; however, we experienced strong overall growth in 2009. Our revenue increased 47.3%, from HK$229.7 million in 2007 to HK$338.4 million in 2009, as a result of new product launches and customer additions. Our gross profit margin and net profit margin for the year ended 31 December 2009 were 45.3% and 23.4%, respectively. During this period, our revenue from sales in the PRC, as a percentage of revenue, continued to grow, and the relative contribution of our transmission management and power management segments continued to increase.

The following table sets forth our revenue generated from sales in the PRC, Europe, North America and Asia (excluding the PRC) regions for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
The PRC	61,640	26.8	97,525	34.3	165,697	49.0
Europe	83,597	36.4	77,972	27.4	61,025	18.0
North America	23,362	10.2	79,297	27.9	40,587	12.0
Asia (excluding the PRC)	61,104	26.6	29,844	10.4	71,076	21.0
Total	229,703	100	284,638	100	338,385	100

Our revenue during the Track Record Period was driven by our three largest product segments: power management, transmission management and wavelength management. Together these three segments accounted for 94.5%, 93.6% and 94.1% of our revenues for the years ended 31 December 2007, 2008 and 2009, respectively. During the Track Record Period, revenues from the transmission management segment, as a percentage of our total revenues, increased, while revenues from the wavelength management segment, as a percentage of total revenues, decreased. The following table sets forth the amount and percentage of revenue by product segment during the Track Record Period.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue						
Power management	77,201	33.6	109,866	38.6	128,568	38.0
Transmission management	53,843	23.4	73,251	25.7	114,104	33.7
Wavelength management	86,156	37.5	83,474	29.3	75,786	22.4
Signal conditioning and monitoring management	5,627	2.4	6,461	2.3	6,183	1.8
Others	6,876	3.1	11,586	4.1	13,744	4.1
Total	229,703	100	284,638	100	338,385	100

COMPETITIVE STRENGTHS

We believe that our principal competitive strengths, outlined below, will enable us to benefit from the growth in demand we expect for subcomponents, components, modules and subsystems for optical communications networks. Our key strengths include:

- design and manufacturing expertise in major areas of optical technologies;
- vertically-integrated business model;
- efficient and flexible manufacturing;
- long and proven track record in the fiber optics industry;
- broad product portfolio;
- solid customer base; and
- China strategic advantage.

STRATEGIES

Our goal is to be the leading supplier of fiber optic subcomponents, components, modules and subsystems to the global fiber optic industry. We plan to achieve this goal by pursuing the following strategies:

- maintaining and extending our core technology platforms;
- further building up our vertically-integrated business model;
- enhancing and extending our product portfolio with emphasis on next-generation technologies;
- broadening our customer base;
- increasing our involvement in our customers' product development cycles; and
- continuing to optimize our manufacturing capabilities.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our combined financial information for the three years ended 31 December 2007, 2008 and 2009, including our combined income statements, combined balance sheets and combined cash flow statements, all of which have been derived from our combined financial information included in the Accountants' Report set out in Appendix I to this prospectus prepared in accordance with HKFRS. Historical results are not necessarily indicative of results for any future period. The results were prepared on the basis of presentation as set out in the Accountants' Report. The summary combined financial information should be read in conjunction with the combined financial information set out in the Accountants' Report including the related notes to the combined financial information.

Combined Income Statements

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue	229,703	100	284,638	100	338,385	100
Cost of sales	(135,714)	(59.1)	(177,885)	(62.5)	(185,137)	(54.7)
Gross profit	93,989	40.9	106,753	37.5	153,248	45.3
Other gains – net	228	0.1	1,171	0.4	2,065	0.6
Selling and marketing costs	(17,413)	(7.6)	(18,836)	(6.6)	(17,436)	(5.1)
Research and development expenses	(18,258)	(7.9)	(21,027)	(7.4)	(16,875)	(5.0)
Administrative expenses	(32,891)	(14.3)	(36,352)	(12.8)	(31,445)	(9.3)
Operating profit	25,655	11.2	31,709	11.1	89,557	26.5
Finance income	314	0.1	132	0.1	44	0.0
Finance costs	(5,138)	(2.2)	(6,990)	(2.5)	(1,094)	(0.3)
Finance costs – net *(Note 1)*	(4,824)	(2.1)	(6,858)	(2.4)	(1,050)	(0.3)
Profit before income tax	20,831	9.1	24,851	8.7	88,507	26.2
Income tax expenses	(531)	(0.3)	(1,854)	(0.6)	(9,347)	(2.8)
Profit for the year attributable to equity holders of the Company	20,300	8.8	22,997	8.1	79,160	23.4
Earnings per share for profit attributable to equity holders of the Company *(Note 2)*	N/A		N/A		N/A	

Note 1: We incurred an exchange loss of approximately HK$4.9 million, HK$5.9 million and HK$0.6 million during the years ended 31 December 2007, 2008 and 2009, respectively. For further details, please refer to the section headed "Foreign Exchange Rate Risk" in this section below.

Note 2: No earnings per share information is presented, as its inclusion for the purpose of the Accountants' Report set out in Appendix I to this prospectus, is not considered meaningful due to the preparation of the results for the relevant financial periods on a combined basis as disclosed in Note 2.1 of the aforesaid Accountants' Report.

SUMMARY

Combined Balance Sheets

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Land use right	27,828	28,949	28,396
Property, plant and equipment	33,875	38,163	40,157
Intangible assets	484	587	496
Deferred income tax assets	830	737	924
	63,017	68,436	69,973
Current assets			
Inventories	55,599	46,438	56,293
Trade and other receivables	62,427	88,709	169,508
Pledged bank deposits	53,396	–	–
Cash and cash equivalents	12,015	22,979	26,544
	183,437	158,126	252,345
Total assets	246,454	226,562	322,318
EQUITY			
Attributable to equity holders of the Company			
Owners' equity	78,150	106,595	188,381
LIABILITIES			
Current liabilities			
Trade and other payables	109,782	95,549	123,040
Current income tax liabilities	–	1,740	10,897
Borrowings	58,522	22,678	–
	168,304	119,967	133,937
Total liabilities	168,304	119,967	133,937
Total equity and liabilities	246,454	226,562	322,318
Net current assets	15,133	38,159	118,408
Total assets less current liabilities	78,150	106,595	188,381

Combined Cash Flow Statements

	Year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Cash generated from operating activities	13,320	8,215	35,777
Interest paid	(244)	(1,041)	(525)
Income tax prepaid/paid	–	(238)	(144)
Net cash from operating activities	13,076	6,936	35,108
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress	(12,655)	(12,522)	(6,116)
Purchase of land use right	(27,035)	–	–
Purchase of intangible assets	(477)	(207)	(44)
Interest received	314	132	44
Proceeds from disposal of property, plant and equipment	1,895	–	10
Net cash used in investing activities	(37,958)	(12,597)	(6,106)
Cash flows from financing activities			
Payments of share issuance costs	–	(1,670)	(2,796)
Proceeds from borrowings	58,450	22,389	–
Repayments of borrowings	(19,635)	(58,233)	(22,678)
Repayments of amount due to a related party	(45)	–	–
Net (placement)/withdrawal of pledged deposits	(33,987)	53,396	–
Net cash from/(used in) financing activities	4,783	15,882	(25,474)
Net (decrease)/increase in cash and cash equivalents	(20,099)	10,221	3,528
Cash and cash equivalents at the beginning of the year	31,297	12,015	22,979
Exchange difference	817	743	37
Cash and cash equivalents at the end of the year	12,015	22,979	26,544

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

Forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010[(1) & (2)]	Not less than HK$65.9 million
Unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010[(3)]	Not less than HK$0.085

Notes:

(1) The bases and assumptions on which the above consolidated profit forecast for the six months ending 30 June 2010 has been prepared are summarized in Appendix III to this prospectus.

(2) The forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 is extracted from the section headed "Financial Information – Profit Forecast for the Six Months ending 30 June 2010" in this prospectus. The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 based on the forecast of the consolidated results of the Group for the six months ending 30 June 2010. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in Note 2.2 of Section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(3) The calculation of unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 is based on the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 and on the basis that 773,095,240 Shares were in issue during the entire period and assuming that the Global Offering had been completed on 1 January 2010. The calculation takes no account of any Shares which may be issued upon exercise of the options granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate to Issue Shares or General Mandate to Repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(4) We have undertaken to the HKSE that our interim report for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting commissions and other estimated offering expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK$2.535 per Share, being the mid-point of the proposed Offer Price range of HK$2.17 to HK$2.90 per Share, will be approximately HK$444.1 million. We intend to apply these net proceeds for the following purposes:

Use[(1)]	Amount	Percent of net proceeds
Construction and build-out of new facilities in Pingshan New District, Shenzhen City	HK$200.0 million	45.0%
Payments to Shenzhen Kaifa for rent and other operating expenses paid by Shenzhen Kaifa on our behalf	HK$34.0 million	7.7%
Production line expansion	HK$40.0 million	9.0%
Potential acquisitions	HK$137.0 million	30.8%
Working capital reserves	HK$33.1 million	7.5%

(1) See the section headed "Future Plans and Use of Proceeds" in this prospectus for additional information.

In the event that the net proceeds exceed HK$444.1 million as a result of the Offer Price setting at the high end of the proposed offer price range, the additional net proceeds of approximately HK$68.0 million will be used for working capital.

In the event that the net proceeds are less than HK$444.1 million as a result of the Offer Price setting at the low end of the proposed offer price range, we will receive net proceeds of approximately HK$376.0 million. Under such circumstances, the net proceeds allocated to the above-mentioned use of proceeds will be reduced on a pro rata basis, except for repayment to Shenzhen Kaifa and the construction and build-out of new facilities in Pingshan New District, Shenzhen City which will not be affected by the net proceeds to be received should the Offer Price is set at the low end of the proposed offer price range.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and other external financing. We currently believe that the net proceeds from the Global Offering, when combined with such alternate sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds of the Global Offering are not immediately applied for the above purposes, we will deposit the net proceeds into interest bearing bank accounts.

In the event that the Over-allotment Option is exercised in full, we will not receive any of the proceeds from the sale of the Over-allotment Shares by the Over-allotment Grantors.

GLOBAL OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised and no options are granted under the Share Option Scheme.

	Based on an Offer Price of HK$2.17 per Share	Based on an Offer Price of HK$2.90 per Share
Market capitalization(1)	HK$1,677.6 million	HK$2,242.0 million
Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company per Share as at 31 December 2009(2)	HK$0.73	HK$0.91

Notes:

(1) The calculation of market capitalization is based on 773,095,240 Shares expected to be in issue and outstanding following the Global Offering but takes no account of the options which may be granted under the Share Option Scheme.

(2) The pro forma adjusted net tangible assets attributable to equity holders of the Company per Share is arrived at after the adjustments referred to in "Appendix II – Unaudited Pro Forma Financial Information" of this prospectus and on the basis of 773,095,240 Shares to be issued following the completion of the Capitalization Issue and the Global Offering at the respective indicative Offer Prices of HK$2.17 per Share and HK$2.90 per Share. This calculation takes no account of the options that may be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to "General Mandate to Issue Shares" or "General Mandate to Repurchase Shares" as described in the section headed "Share Capital" in this prospectus.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surpluses, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. In addition, our Controlling Shareholders will be able to influence our dividend policy.

Our operations are conducted primarily through our PRC subsidiary and any dividend we would pay would be from the proceeds of a dividend to us from our PRC subsidiary. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require FIEs, such as our subsidiary in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

We currently do not plan to distribute a regular dividend following the Listing. If our growth continues as we expect, all of our cash on hand as well as the net proceeds from the Global Offering will be utilized as described in the section headed "Use of Proceeds" and otherwise to expand our business. In the future, however, subject to the factors described above, when our cash on hand exceeds our expected needs for operations and to grow our business, the Board will revisit the Company's dividend policy.

RISK FACTORS

There are certain risks involved in our operations, some of which are beyond our control. These risks are set out in the section headed "Risk Factors" in this prospectus and are summarized below:

Risks relating to our business

- Our leasehold titles related to some of our properties may be subject to challenge and could adversely affect our results of operations.

- We will lose market share if our customers do not qualify us and our products for integration into their products and systems.

- We depend on a limited number of customers for a significant portion of our total revenues; we do not have long-term purchase commitments from our customers, and changes in their purchase and payment terms or patterns may cause significant fluctuations or declines in our revenues.

- We operate in a highly competitive market.

- In response to industry consolidation, our strategy includes possible alliances and acquisitions and our failure to successfully implement any such alliance or acquisition could have a material adverse effect on our business.

- If we are unable to develop products that meet the requirements of potential customers, our business, results of operations and financial condition could suffer.

- We depend on a limited number of vendors for certain key supplies.

- We are exposed to risks related to our indemnification of third parties and product liability claims of third parties.

- Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products if these claims are successful.

- We may not be able to increase our production capacity or output in order to increase our sales and gain additional market share.

- Our inventory may become obsolete.

- Our business is labor-intensive and we may experience increasing difficulty in retaining qualified personnel to meet our demands.

- We face various risks related to our manufacturing operations that may adversely affect our business.

- Our business and operations would be adversely impacted in the event of a failure of our information technology infrastructure.

- Increases in electricity costs and electricity supply shortages may adversely affect our operations.

Risks relating to the industry in which we operate

- The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations.

- If information networks do not continue to expand as expected our business will be adversely impacted.

- We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

Risks relating to doing business in China

- Changes in China's political and economic policies and conditions could adversely affect our business and prospects.

- Uncertainties with respect to the Chinese legal system could adversely affect us.

- Restrictions on foreign currency exchange may limit our ability to distribute dividends or to use financing effectively.

- Fluctuation in the value of the Renminbi could expose us to foreign currency risks and may have an adverse effect on our financial position.

- Expiration of, changes to, or our failure to qualify for, current Chinese tax incentives that our business enjoys could have a material adverse effect on our results of operations.

- Dividends payable to investors and gains on the sale of the Shares may become subject to withholding taxes under PRC tax laws which may adversely affect the value and gains of investment in the Shares.

- Our PRC subsidiary is subject to existing restrictions on paying dividends or making other distributions to the Company and changes in foreign exchange regulations may adversely affect our business, financial condition and results of operations.

- PRC regulations on direct investment and loans by offshore holdings companies to PRC entities may delay or limit the Company from making loans to our PRC subsidiary.

- It may be difficult to effectuate service of process upon us or our Directors or executive officers who live in China or to enforce against them in the PRC judgments obtained from non-PRC courts.

- Our financial results may be adversely affected by the new PRC Labor Contract Law and competition within the PRC for skilled and experienced workers.

Risks relating to the Global Offering and our Share Performance

- There has been no prior public market for the Shares and the liquidity and market price of the Shares may be volatile and could result in substantial losses for investors purchasing the Shares in the Global Offering.

- Our two principal shareholders, Hong Kong Kaifa and O-Net Holdings, each have substantial control over our Company and their interests may not be aligned with the interests of our other shareholders.

- Future sales by our existing Shareholders of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares.

- We may not be able to pay any dividends on the Shares.

- We cannot guarantee the accuracy of facts and other statistics derived from government official publications with respect to China, the PRC economy and the PRC optical networking industry contained in this prospectus.

- Investors should not rely on any information contained in press articles or other media regarding our Company or the Global Offering.

Foreign Exchange Rate Risk

Our costs are predominantly in RMB, whereas our revenues are mainly in US dollars and RMB. As such we face foreign exchange and conversion risks primarily through sales that are dominated in currencies other than RMB. Fluctuation in the exchange rate between RMB and the US dollar may adversely affect our business, financial condition and results of operations. For illustrative purposes only, the exchange rate of the RMB against the US dollar ranged from RMB 7.3037 per US$1.00 to RMB 7.8160 per US$1.00 during the year ended 31 December 2007, from RMB 6.8113 per US$1.00 to RMB 7.3041 per US$1.00 during the year ended 31 December 2008 and ranged from RMB 6.8192 per US$1.00 to RMB 6.8519 per US$1.00 during the year ended 31 December 2009. Due to the rapid appreciation of the RMB against the US dollar in 2007 and 2008, we incurred an exchange loss of approximately HK$4.9 million and HK$5.9 million, respectively. Our exchange loss during 2009 was HK$0.6 million. We incurred significantly less exchange loss during 2009 due to the appreciation of the RMB against the US dollar stabilizing as well as an increase in the proportion of our sales made in the PRC, which are generally denominated in RMB.

We currently do not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. We will also monitor and maintain a US dollar cash balance in order to minimize the need for unnecessary foreign exchange conversion which may result in exchange loss. For further details, please refer to the section headed "Risk Factors – Fluctuation in the value of the Renminbi could expose us to foreign currency risks and may have an adverse effect on our financial position" in this prospectus.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"affiliate"	any person, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person
"Application Form(s)"	**white** application form(s), **yellow** application form(s) and **green** application form(s) relating to the Hong Kong Public Offering or where the context so requires, any of them
"Articles of Association" or "Articles"	the articles of association of our Company, conditionally adopted on 9 April 2010 to take effect on the Listing Date and as amended from time to time, a summary of which is set out in Appendix V to this prospectus
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Audit Committee"	a committee of the Board formed to review and monitor the financial and legal affairs of the Company
"Board"	the board of Directors of the Company
"Business Day"	a day which is not a Saturday, a Sunday or a public holiday and on which banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate, a method of assessing the average growth of a value over time
"Capitalization Issue"	the capitalization issue referred to in the section headed "Further information about us – 3. Proceedings at the Company's extraordinary general meeting" in Appendix VI to this prospectus
"Cayman Islands Companies Law"	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC

"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, which may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CCASS Rules"	the General Rules of CCASS and the CCASS Operational Procedures
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan
"CLSA" or "Sole Sponsor"	CLSA Equity Capital Markets Limited, a licensed corporation under the SFO to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
"Company"	O-Net Communications (Group) Limited, a company incorporated under the laws of the Cayman Islands with limited liability on 12 November 2009
"Connected Person(s)"	any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules and for the purposes of this prospectus, refers to Hong Kong Kaifa, Mandarin IT Fund I and O-Net Holdings
"Director(s)"	the director(s) of the Company
"EIT"	enterprise income tax of the PRC

"EIT Law"	the PRC Enterprise Income Tax law (中華人民共和國企業所得税法) promulgated in March 2007 and which became effective in January 2008, by China's legislature, the National People's Congress
"EU"	the European Union
"FIE"	foreign invested enterprise
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Great Wall Technology"	Great Wall Technology Company Limited, a company incorporated in the PRC and listed on HKSE (Stock Code: 74)
"Green Application Form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider Computershare Hong Kong Investor Services Limited
"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"HKSE"	The Stock Exchange of Hong Kong Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Kaifa"*	Kaifa Technology (H.K.) Limited, a company incorporated in Hong Kong and one of the Controlling Shareholders upon completion of the Reorganization

"Hong Kong Offer Shares"	the 19,328,000 new Shares (subject to adjustment) being offered by us for subscription at the Offer Price pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Hong Kong Underwriters"	the several underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting – Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 16 April 2010 relating to the Hong Kong Public Offering entered into among us, the Controlling Shareholders, Mr. Na Qinglin, Mr. Xue Yahong, the Hong Kong Underwriters and the sole Global Coordinator
"Implementation Regulations of PRC EIT Law"	the Regulations for the Implementation of the PRC EIT Law (中華人民共和國企業所得稅法實施條例) which were promulgated on 6 December 2007 and became effective on 1 January 2008
"Independent Third Party(ies)"	persons who are not Connected Persons
"Infostone"	訊石信息諮詢(深圳)有限公司 (Infostone Communication Consultant (Shenzhen) Ltd.), an independent company providing consultancy services in respect of the optical communications industry, including the provision of market information to optical component manufacturers
"International Offering"	the conditional placing by the International Underwriters of the International Offer Shares, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Offer Shares"	the 173,952,000 new Shares (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) initially being offered by us for subscription pursuant to the International Offering together, where relevant, with any Shares that may be sold by the Over-allotment Grantors pursuant to any exercise of the Over-allotment Option

"International Purchase Agreement"	the international purchase agreement relating to the International Offering to be entered into among us, the Controlling Shareholders, Mr. Na Qinglin, Mr. Xue Yahong, the International Underwriters and the Sole Global Coordinator on or around the Price Determination Date
"International Underwriters"	the several underwriters of the International Offering who are expected to enter into the International Purchase Agreement
"Intertrust"	Intertrust Fund Services (Asia) Limited, formerly known as Infiniti Administration (Asia) Limited, a company incorporated in Hong Kong and an Independent Third Party, which is engaged in the business of providing administration services to investment funds and is the administrator of Mandarin IT Fund I
"Joint Bookrunners" or "Joint Lead Managers"	CLSA Limited and Piper Jaffray Asia Securities Limited
"Latest Practicable Date"	13 April 2010, being the latest practicable date before the printing of this prospectus for ascertaining certain information contained herein
"Listing"	the listing of the Shares on the Main Board of the HKSE
"Listing Committee"	the Listing Committee of the HKSE
"Listing Date"	29 April 2010, the date on which the Shares are expected to be listed on the HKSE
"Listing Rules"	the Rules Governing the Listing of Securities on the HKSE
"Mandarin IT Fund I"*	a company incorporated in the Cayman Islands and one of the shareholders of O-Net Holdings and also one of the Controlling Shareholders upon completion of the Reorganization
"Mariscal Limited"*	a company incorporated in Hong Kong and one of the shareholders of O-Net Holdings upon completion of the Reorganization
"Memorandum"	the memorandum of association of the Company

"MIIT"	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"NDRC"	the National Development and Reform Commission (國家發展和改革委員會)
"Offer Price"	the final Hong Kong dollar price per Share (exclusive of a brokerage fee of 1%, a HKSE trading fee of 0.005% and a SFC transaction levy of 0.004%) at which the Offer Shares are to be subscribed pursuant to the Hong Kong Public Offering to be agreed upon by us (for ourselves and on behalf of the Over-allotment Grantors) and the Sole Global Coordinator (on behalf of the Underwriters) on or before the Price Determination Date as further described in the section entitled "Structure of the Global Offering" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any Over-allotment Shares that may be sold by the Over-allotment Grantors pursuant to the exercise of the Over-allotment Option
"O-Net BVI"	O-Net Communications Holdings Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company upon completion of the Reorganization
"O-Net Cayman"	O-Net Communications Limited, a company incorporated in the Cayman Islands and a Connected Person upon completion of the Reorganization with its shareholding structure before and after the Reorganization shown on pages 97 and 100 of this prospectus respectively under the section headed "History and Development"
"O-Net Employee Plan Limited"*	a company incorporated in BVI and one of the shareholders of O-Net Holdings upon completion of the Reorganization
"O-Net Holdings"	O-Net Holdings (BVI) Limited, a company incorporated in BVI and one of the Controlling Shareholders upon completion of the Reorganization

"O-Net Hong Kong"	O-Net Communications (Hong Kong) Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company upon completion of the Reorganization
"O-Net Shenzhen"	O-Net Communications (Shenzhen) Limited (昂納信息技術(深圳)有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company upon completion of the Reorganization
"Over-allotment Grantors"	O-Net Holdings and Hong Kong Kaifa, each a Controlling Shareholder upon completion of the Reorganization. The particulars of them are set out in the section entitled "Statutory and General Information – Particulars of the Over-allotment Grantors" in Appendix VI of this prospectus
"Over-allotment Option"	the options to be granted by O-Net Holdings and Hong Kong Kaifa to the International Underwriters under the International Purchase Agreement, pursuant to which O-Net Holdings and Hong Kong Kaifa will sell up to 15,230,817 and 13,759,183 Over-allotment Shares, respectively, or an aggregate of 28,990,000 Over-allotment Shares (representing approximately 15% of the Offer Shares initially being offered by the Company under the Global Offering) at Offer Price, which option is exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) from the date of the International Purchase Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offer as described in the section entitled "Structure of the Global Offering" in this prospectus
"Over-allotment Shares"	28,990,000 Shares in the aggregate owned and to be offered for sale by the Over-allotment Grantors under the Over-allotment Option at the Offer Price under the International Offering
"Ovum"	Ovum Europe Limited, an independent research company and business information provider which is a part of the Datamonitor Group of companies
"PBOC"	the People's Bank of China (中國人民銀行)
"PRC Government"	the government of the PRC

"PRC Labor Contract Law"	the PRC Labor Contract Law (中華人民共和國勞動合同法), which was enacted by the Standing Committee of the National People's Congress of the PRC on 29 June 2007 and became effective on 1 January 2008
"Price Determination Date"	the date expected to be on or around 23 April 2010, and in any event will be no later than 24 April 2010, on which the Offer Price is fixed by agreement between us (for ourselves and on behalf of the Over-allotment Grantors) and the Sole Global Coordinator (on behalf of the Underwriters) for the purpose of the Global Offering
"Qualified Institutional Buyers"	qualified institutional buyers within the meaning of Rule 144A
"Regulation S"	Regulation S under the US Securities Act
"Remuneration Committee"	a committee of the Board with responsibility for overseeing the remuneration of the executive Directors
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reorganization"	the corporate reorganization of the companies within our Group conducted in preparation for the Listing, details of which are set out in the section headed "History and Development – Reorganization" in this prospectus
"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	State Administration of Foreign Exchange (國家外滙管理局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company
"Share Option Scheme"	the existing share option scheme of the Company, details of which are set out in the section headed "Share Option Scheme" in Appendix VI to this prospectus
"Shareholder(s)"	holder(s) of the Share(s)

"Shenzhen Kaifa"	Shenzhen Kaifa Technology Co., Ltd (深圳長城開發科技股份有限公司), a company incorporated in the PRC in 1985 and listed on the Shenzhen Stock Exchange; stock code: 21, 49.64% of which is owned by Great Wall Technology. Shenzhen Kaifa is a Connected Person upon completion of the Reorganization
"Sole Global Coordinator" or "Stabilizing Manager"	CLSA Limited, a licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
"Stock Borrowing Agreement"	a stock borrowing agreement to be entered into on or around the Price Determination Date between the Stabilizing Manager, O-Net Holdings and Hong Kong Kaifa
"Track Record Period"	the three financial years ended 31 December 2009
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Purchase Agreement
"United States" or "US"	the United States of America
"US dollar" or "US$"	the United States dollar, the lawful currency of the United States
"US Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"VAT"	value added tax
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"%"	per cent

* In relation to the ownership structure of Hong Kong Kaifa, Mandarin IT Fund I, Mariscal Limited and O-Net Employee Plan Limited, please refer to the notes under the chart illustrating our corporate structure prior to the Reorganization under the section headed "History and Development" on page 97 of this prospectus.

In this prospectus:

- "Company", "the Company" and "our Company" refer to O-Net Communications (Group) Limited, a company incorporated on 12 November 2009 as an exempted company under the laws of the Cayman Islands;

- "Group", "the Group", "our Group", "our", "we", "us" and "ourselves" means the Company and its subsidiaries from time to time and where the context refers to any time prior to the completion of the Reorganization;

- the terms "associate", "connected transaction", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires;

- for ease of reference, the names of companies and entities established in China have been included in this prospectus in English by way of translation if such Chinese entities do not have an English name as part of their legal name, and if there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translations, the Chinese version shall prevail; and

- Unless otherwise specified, amounts denominated in foreign currency have been translated for the purposes of illustration only in Hong Kong dollars in the document at the following rates:

  RMB1.00 = HK$1.14

  US$1.00 = HK$7.75

No representation is made that any amounts can be or could have been converted at the relevant dates at the above rates or any other rates at all.

Certain amounts set out in this prospectus have been rounded. Accordingly, figures shown as totals of certain amounts may not be an arithmetic sum of such amounts.

This glossary contains definitions of certain terms used in this prospectus in connection with the Group and its business. Some of these definitions may not correspond to standard industry definitions.

"3G"	refers to the third generation of mobile communications technology that works over wireless air interfaces.
"10G"	refers to a high data-rate optical network capable of transmitting at speeds of up to 10 Gigabits per second.
"40G"	refers to a high data-rate optical network capable of transmitting at speeds of up to 40 Gigabits per second.
"100G"	refers to a high data-rate optical network capable of transmitting at speeds of up to 100 Gigabits per second.
"Access network"	refers to a network that transmits data over optical fiber over short distances and provides access to the network's end-users.
"active component"	refers to a device that processes an electronic or optical signal in the course of which the basic characteristic or transmission form of such signal is changed, except when used in the section headed "Industry Overview" of this prospectus as Infostone and/or Ovum may define the term differently.
"Amplification"	refers to the process of boosting the strength of an electronic or optical signal.
"Amplifier"	refers to a device inserted within a transmission path that boosts the strength of an electronic or optical signal.
"Attenuation"	refers to loss of signal strength during transmission.
"Bandwidth"	refers to the volume of data transmitted across communications infrastructure.
"Beam splitter"	refers to a crucial part of most interferometers that splits a beam in two.

"Bit"	refers to the smallest unit of measurement of information on a machine.
"Bit-rate"	refers to a measurement of speed, describing the number of bits that are conveyed or processed over time.
"Cable"	refers to coaxial cable, a type of wire that consists of a center wire surrounded by insulation and a grounded shield of braided wire widely used for computer networks.
"C-Band"	refers to the wavelength range from 1530 nm to 1565 nm.
"Channel"	refers to the path between two nodes on a network.
"Coarse Wavelength Division Multiplexer" or "CWDM"	refers to a device that combines multiple signals on laser beams at various wavelengths, usually spaced 20 nanometers apart.
"Connector"	refers to a device used to connect different fiber-optic devices and equipment.
"Crosstalk"	refers to a signal affecting another nearby signal.
"dB"	refers to decibel, which is a logarithmic unit of measurement that expresses the magnitude of a physical quantity (usually power or intensity) relative to a specified or implied reference level.
"dBm"	refers to an abbreviation for the power ratio in decibels (dB) of the measured power referenced to one milliwatt (mW).
"Demultiplexing"	refers to the process of separating two or more signals previously combined in a compatible process called multiplexing.
"Dense wavelength division multiplexing" or "DWDM"	refers to a technology that enables ultra high-speed transfer of information on long-distance networks through multiplexing of several wavelengths in a single optical fiber.
"Detectors"	refers to a device that recovers information contained in a modulated wave.

"Differential phase-shift keying" or "DPSK"	refers to a digital modulation scheme that conveys data by changing, or modulating, the phase of a reference signal (the carrier wave).
"Differential quaternary phase-shift keying" or "DQPSK"	refers to a digital modulation scheme that conveys data by using four different values of the phase of a reference signal (the carrier wave).
"Diplexer"	refers to a device that implements frequency domain multiplexing.
"DSL"	refers to all types of digital subscriber lines, which use modulation schemes to pack data onto copper wires and which are commonly used for connections from a telephone switching station to a home or office.
"Erbium doped fiber amplifier" or "EDFA"	refers to an optical device that is used to boost the intensity of optical signals being carried through a fiber optic communications system.
"Etalon"	refers to an optical apparatus that is typically made of a transparent plate with two reflecting surfaces, or two parallel highly reflective mirrors.
"Ethernet"	refers to a family of frame-based computer networking technologies for local area networks.
"Fiber pigtail and collimators"	refers to devices that convert a divergent output laser beam from a fiber or waveguide into an expanding beam of parallel light.
"Fiber-to-the-building" or "Fiber-to-the-basement" or "FTTB"	refers to broadband network architecture that uses optical fiber to reach the boundary of the building, such as the basement in a multi-dwelling unit, with the final connection to the individual living space being made via alterative means.
"Fiber-to-the-home" or "FTTH"	refers to the deployment of a fiber optic network that extends to individual homes.
"Firmware"	refers to programs or data that has been written onto read-only memory.
"FIS"	refers to our Factory Information System.

"FTTx"	refers to any broadband network architecture that uses optical fiber to replace all or part of the usual metal local loop used for last mile telecommunications (e.g., fiber-to-the-home).
"Gain-flattening"	refers to a technique for making the gain spectrum of an optical amplifier device flatter over a certain optical frequency range.
"GHz"	(gigahertz) refers to frequencies in the billions of cycles per second range.
"Interleaver"	refers to a three-port passive fiber-optic device that is used to combine two sets of dense wavelength-division multiplexing (DWDM) channels (odd and even channels) into a composite signal stream in an interleaving way.
"Internet protocol" or "IP"	refers to the protocol used for communicating data across a packet-switched network using the Internet Protocol Suite.
"Internet Protocol television" or "IPTV"	refers to a system through which digital television service is delivered using the architecture and networking methods of the Internet Protocol Suite over a packet-switched network infrastructure, e.g., the Internet and broadband Internet access networks, instead of being delivered through traditional radio frequency broadcast, satellite signal, and cable television formats.
"Jumper"	refers to a length of optical fiber cable with two connectors.
"L-Band"	refers to the wavelength range from 1565 nm to 1625 nm.
"Local area network" or "LAN"	refers to a computer network covering a small physical area, like a home, office, or small group of buildings, such as a school, or an airport.
"Long-haul network"	refers to a network that transmits data through optical fiber over distances ranging from hundreds of kilometers to thousands of kilometers.

"Media Converter"	refers to a device that convert's Ethernet optical-electronic signals between 10/100M UTP interface (TX) and 100M Fiber interface (FX).
"mm"	refers to millimeter, a unit of length equal to one thousandth of a meter.
"Modulation"	refers to the process of blending data into a carrier signal.
"ms"	refers to millisecond, a unit of time equivalent to one thousandth of a second.
"Multiple supplier agreement" or "MSA"	refers to a common footprint design and optical/electrical interface, allowing equipment manufacturers a choice among several compatible suppliers, simultaneously reducing lead-times and cost.
"Multiplexing"	refers to a technique to simultaneously transfer several signals on a common transmission signal.
"mW"	refers to milliwatt, a unit of power equal to one thousandth of a watt.
"nm"	refers to nanometers.
"Node"	refers to a processing location on a network, such as a computer or other device.
"Noise"	refers to interference that destroys the integrity of a signal.
"OOK modulation"	refers to on-off keying modulation which is a form of amplitude-shift keying modulation that represents digital data as the presence or absence of a carrier wave.
"Optical channel monitor" or "OCM"	refers to a device that measures channel power, wavelength, and optical signal-to-noise ratio for each channel.
"Optical coating"	refers to a material deposited on an optical component, which alters the reflection and transmission of light.
"Optical isolator"	refers to an optical component which allows the transmission of light in only one direction.

"Optical packaging"	refers to a series of processes that fix one or several optical function parts into a required dimension package, with minimum effect on its optical performance.
"Optical signal-to-noise ratio" or "OSNR"	refers to the ratio of a signal's power to the noise power corrupting the signal.
"passive component"	refers to a device that passes an electronic or optical signal without affecting the basic characteristic or transmission form of such signal, except when used in the section headed "Industry Overview" of this prospectus as Infostone and/or Ovum may define the term differently.
"Passive optical network" or "PON"	refers to a point-to-multipoint, fiber to the premises network architecture in which unpowered optical splitters are used to enable a single optical fiber to serve multiple premises.
"Polarization beam combiner" or "PBC"	refers to a three-port light wave component based on the characteristics of polarization.
"ps"	refers to picosecond or 1 E-12s, a unit of time equivalent to 10^{-12} of a second.
"Reconfigurable optical add-drop multiplexer" or "ROADM"	refers to a multiplexer that adds the ability to remotely switch traffic from a WDM system at the wavelength layer.
"SONET/SDH"	refers to the standardized multiplexing protocols that transfer multiple digital bit streams over optical fiber using lasers or light-emitting diodes (LEDs). Lower rates can also be transferred via an electrical interface.
"Storage area network" or "SAN"	refers to an architecture used to increase storage capacity by attaching remote computer storage devices to servers in such a way that the devices appear as if they are locally attached to the operating system.
"Switch"	refers to an intelligent network hardware device that allows for organization and routing of data by destination and predetermined rules.

"TDC"	refers to a module that reduces the negative effect of different wavelengths reaching their destinations in an irregular fashion.
"Thin-film filter technology"	refers to the use of very thin structured layers of different materials.
"Transceiver"	refers to a device that both transmits and receives analog or digital signals.
"Triplexer"	refers to a form of a multiplexer consisting of one input and three outputs.
"V"	refers to volt, the unit of electromotive force, commonly called "voltage".
"Variable optical attenuator" or "VOA"	refers to a device designed to attenuate the intensity or power level of an input optical beam in a controlled manner to produce an output optical beam with different attenuated intensities.
"Waveform"	refers to a graphical representation of a signal as a plot of amplitude versus time.
"Waveguide"	refers to a rectangular, circular or elliptical tube through which electromagnetic waves are transmitted.
"Wavelength"	refers to the length of a wave measured from any point on one wave, to the corresponding point on the next wave, e.g., crest-to-crest distance.
"Wavelength division multiplexing" or "WDM"	refers to a method of increasing the capacity of a network by transmitting signals at different wavelengths.
"Wavelength locker"	refers to a device used to ensure optical signal wavelength accuracy and stability for DWDM.
"Wi-Fi"	refers any wireless local area network products that are based on the Institute of Electrical and Electronics Engineers' 802.11 standards.

"Wireless local area network" or "WLAN"	refers to a wireless computer network covering a small physical area, like a home, office or small group of buildings, such as a school or airport.
"μs"	refers to microsecond, a unit of time equivalent to one millionth of a second.

This prospectus contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may”, “will”, “expect”, “anticipate”, “aim”, “estimate”, “intend”, “plan”, “believe”, “likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

- our ability to maintain and strengthen our position as a supplier to leading network systems vendors;
- our goals and strategies;
- our ability and expected timetable to complete our development and expansion projects;
- our future business development, results of operations and financial condition;
- our ability to maintain strong relationships with any particular supplier or customer;
- our planned use of proceeds and capital expenditure plans;
- our ability to attract and retain customers;
- expected growth of and change in the optical networking industry in the global market;
- PRC Government policies relating to the high technology business or foreign investments; and
- other statements that are not historical facts.

You should read thoroughly this prospectus and the documents that we refer to in this prospectus with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements (other than our profit forecast for the six months ending 30 June 2010 set out in the “Financial Information” section of this prospectus) by these cautionary statements. Other sections of this prospectus include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

This prospectus also contains estimates, projections and statistical data related to the optical networking market globally, as well as in specific countries and regions, such as China. This optical networking market data speaks as of the date it was published and includes projections that are based on a number of assumptions and are not representations of fact. Included in this prospectus is information contained in ready made reports we purchased from Ovum, an Independent Third Party, including a 26 September 2009 report titled "Market Share: 2Q09 optical networks, global and regional", a 7 September 2009 report titled "Forecast Update: optical components" and a 16 June 2009 report titled "Market trends for optical amplifiers". The global optical networking market may not grow at the rates projected by the market data, or at all. The failure of the market to grow at the projected rates may materially and adversely affect our business and the market price of the Shares. In addition, the rapidly changing nature of the optical networking market in China subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. If any one or more of the assumptions underlying the market data proves to be incorrect, actual results may differ from the projections based on these assumptions.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

> You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below in respect of our business and the industry in which we operate. Our business or financial condition could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks and uncertainties.

There are certain risks and uncertainties involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to conducting business in China; and (iv) risks relating to the Global Offering and our Share performance.

RISKS RELATING TO OUR BUSINESS

Our leasehold titles related to some of our properties may be subject to challenge and could adversely affect our results of operations.

As at the Latest Practicable Date, we leased properties in China with an aggregate gross floor area of approximately 6,553 square meters which are used for our production facilities and offices. This situation will continue until we complete the construction of our new production facilities on approximately 38,000 square meters of land we purchased in Pingshan New District, Shenzhen City, China. The title certificates of our landlord in respect of approximately 92.2% of the properties where our production facilities and offices are currently located, as far as we are aware, expired in 2006. The extension of the title certificates is, as far as we are aware, subject to negotiations between the landlord and the local government and we are not certain as to whether the landlord will be able to obtain proper title certificates before the Listing. Pending agreement between the landlord and the local government, the government may take steps to repossess the property or we may be subject to competing third party claims. If the government repossesses the property, we may have to relocate our operations at our existing production facility and the interruption to our production would adversely affect our operations and financial condition. For illustrative purposes only, in the event of such a case of immediate relocation, it is estimated that our consolidated net profit attributable to our equity holders will decrease by approximately HK$22.0 million if calculated on a pro-rata basis based on the forecast net profit attributable to our equity holders of HK$65.9 million for the six months ending 30 June 2010 set out in section headed "Profit Forecast for the Six Months ending 30 June 2010" in the "Financial Information" section in this prospectus and on the basis that our factory operates 26 days per month. There is no indemnity from the Controlling Shareholders in respect of any potential loss of profit or costs otherwise arising from any need for immediate relocation. In addition we lease residential units to house certain employees. Certain landlords of these residential units are also unable to produce proper title certificates to their property. Please refer to the section headed "Business – Properties" of this prospectus for further details.

We will lose market share if our customers do not qualify us and our products for integration into their products and systems.

In the telecommunications industry, service providers and optical system manufacturers often undertake qualification processes to qualify suppliers and their products, which generally take an average of a year to qualify suppliers and about nine months to qualify products, prior to placing orders. Our optical components must function as part of larger existing systems or networks, making reliability and inter-operability particularly important. For example, one customer's qualification processes for our wavelength locker products took 10 months to complete. Once customers decide to use our products or components, these potential customers design our products into their systems, which is known as a "design-in" win for a supplier such as us. Suppliers whose products or components are not designed-in are unlikely to make sales to that company until the adoption of a future redesigned system at the earliest, which could occur several years after the last design was adopted. If we fail to achieve design-in wins in potential customers' qualification processes, we may lose the opportunity for significant sales to these customers for a significant period of time.

We depend on a limited number of customers for a significant portion of our total revenues; we do not have long-term purchase commitments from our customers, and changes in their purchase and payment terms or patterns may cause significant fluctuations or declines in our revenues.

Our top five customers, the composition of which has varied over the Track Record Period, for the years ended 31 December 2007, 2008 and 2009 collectively accounted for 56.6%, 54.3% and 44.8% of our revenue, respectively. In addition, our single largest customer for the years ended 31 December 2007, 2008 and 2009 accounted for 32.7%, 25.8% and 15.7% of our revenue, respectively. We do not have long-term purchase commitments with our customers, and their purchases from us may vary from period to period. We had approximately 160 customers that placed purchase orders with us during the Track Record Period.

We expect to continue to rely on a relatively small number of customers for a significant portion of our total revenue for the foreseeable future. We cannot assure you that any of these customers will continue to purchase significant quantities of our products. In addition, our customers could decide to expand their own manufacturing to produce some of the optical subcomponents, components, modules or subsystems that we manufacture, which could adversely affect our sales.

If we fail to develop or maintain customer relationships with our significant customers or other customers, or if any of our significant customers cease to place orders with us, it may be difficult for us to find alternative customers on a timely basis and on commercially reasonable terms or at all and our revenue and profitability may be adversely affected.

The amount of our revenue from customers in China has increased during the Track Record Period. Our customers in China typically have longer credit terms than our other customers and, as a result, we have experienced an increase in our trade receivable turnover days during the Track Record Period. If the percentage of our revenue from our customers in China continues to grow, we may experience greater credit exposure to our customers.

Additionally, we believe that the telecommunications industry has entered a period of consolidation. The number of network system vendors has consolidated in recent years, a trend which we expect to continue. As a result of the industry consolidation, network system vendors have increased their bargaining power with their suppliers, such as us. We cannot assure you that we will be able to sustain our current profit margins as a result of the increased bargaining power of customers in our industry. To the extent that there is any additional consolidation of our customer base and the customer base to which our customers sell products, we will likely depend on even fewer customers. Following these types of developments, our customers may be able to exert additional increased pressure on our prices and contractual terms in general. Customer consolidation could also potentially create pauses in customer demand for our products as a consequence of their new decision frameworks and periods of operational streamlining.

We operate in a highly competitive market.

We operate in a highly competitive market and may not be able to compete successfully against current or potential competitors. Our principal competitors include the major global manufacturers of optical subcomponents, components, modules and subsystems. Our principal competitors include Oclaro, Inc., JDSU Corporation, Oplink Communications, Inc. and Accelink Technologies Co., Ltd.

These companies may have substantially greater financial, engineering and manufacturing resources as well as greater name recognition and stronger customer relationships than we do. Competitors in any portion of our business also may rapidly become competitors in other portions of our business.

Some of our existing customers and potential customers, as well as our suppliers and potential suppliers, are also our competitors. These customers and suppliers may develop or acquire additional competitive products or technologies, which may cause them to reduce or cease their purchases from us or their supply to us, as the case may be. Further, these customers may reduce or discontinue purchasing our products if they perceive us as a competitive threat with regard to sales of products to their customers. Additionally, suppliers may reduce or discontinue selling materials to us if they perceive us as a competitive threat with regard to sales of products to their customers. As a result of these factors, we expect that the competitive pressures we face may intensify and may result in price reductions, reduced margins and loss of market share.

Competition in the optical subcomponents, components, modules and subsystems industry is largely price-driven. As a result, sales prices for some of the products we produce have decreased over time at varying rates. The rapid emergence of new technologies and the evolution of technical standards can greatly diminish the value of products relying on older technologies and standards and exacerbate price pressure. In addition, the current economic and industry environment in the telecommunications sector has resulted in pressure to reduce prices for our products, and we expect pricing pressure to continue for the foreseeable future, which may adversely affect our operating results.

In response to industry consolidation, our strategy includes possible alliances and acquisitions and our failure to successfully implement any such alliance or acquisition could have a material adverse effect on our business.

The number of suppliers for subcomponents, components, modules and subsystems for the optical networking industry is consolidating. In response to this industry consolidation, we will consider entering into strategic acquisitions and investments and establishing strategic alliances with third parties in the optical communications industry. Strategic acquisitions, investments and alliances with third parties could subject us to a number of risks, including integration difficulties and diversion of management's attention from the normal daily operations of the business. In addition, any such acquisitions, investments or alliances could result in increased expenses that may not be offset by increased revenue.

Acquisitions may also cause us to:

- issue Shares that would dilute the current Shareholders' percentage ownership;
- assume liabilities, some of which may be unknown at the time of the acquisitions;
- record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur large and immediate write-offs of in-process research and development costs; or
- become subject to litigation.

If we are unable to develop products that meet the requirements of potential customers, our business, results of operations and financial condition could suffer.

The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation and highly skilled engineering and development personnel. This process also requires the accurate anticipation of technological and market trends. For example, we are currently developing a number of products for use in next-generation networks, which we cannot ensure will ever be developed. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully or on a timely basis. In addition, the introduction of new and enhanced products may cause our customers to defer or cancel orders for existing products. If customers defer or cancel orders for existing products due to the expectation of a new product release, or if there is any delay in development or introduction of our new products or enhancements of our existing products, our business, results of operations and financial condition would suffer. Further, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to competitive products, technological changes or emerging industry standards. Our failure to respond to technological change would significantly harm our business, results of operations and financial condition.

We depend on a limited number of vendors for certain key supplies.

Our top five suppliers, the composition of which has varied over the Track Record Period, for the years ended 31 December 2007, 2008 and 2009 collectively accounted for 44.6%, 37.7% and 43.1% of our purchases of raw materials, respectively. In addition, our single largest supplier for the years ended 31 December 2007, 2008 and 2009 accounted for 15.5%, 11.7% and 15.0% of our purchases of raw materials, respectively.

We depend on a limited number of suppliers (and in some cases only one supplier) for certain key raw materials, packaging materials and components that we use as inputs in our manufacturing process. For example, we rely on only three pre-qualified suppliers for pump lasers, a critical component of amplifier products. We generally purchase these limited source products through standard purchase orders or under one-year supply agreements, and we have no long-term guaranteed supply agreements with our suppliers. In addition, since early 2008, there has been a significant deterioration in the global economy, therefore, some of our suppliers may face financial stability, quality, yield, scale or delivery concerns. Some of these companies may be acquired, undergo material reorganizations or become insolvent. Other suppliers are larger companies with limited dependency upon our business, resulting in unfavorable pricing, quantity or delivery terms. Our business and results of operations could be adversely affected by stoppages or delays in supply, substitution of more expensive or less reliable products, receipt of defective parts or contaminated materials, increase in the price of such supplies or our inability to obtain reduced pricing from our suppliers in response to competitive pressures. Any of these problems could affect our ability to meet customer expectations and have a material adverse impact on our operations.

For certain key supplies, once a year we generally provide a forecast for the next year that is based on anticipated product orders, customer forecasts, product order history, warranty and service demand and backlog. Lead times for the parts and components that we order based on such forecast vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. If actual usage of these supplies does not match the orders we have made based on our forecast, we may have excesses or shortfalls of some materials and components as well as excess inventory purchase commitments. If such forecast proves to be inaccurate, we can experience reduced or delayed product shipments or incur additional inventory write-downs and cancellation charges or penalties, which will increase costs and have a material adverse impact on our results of operations.

We are exposed to risks related to our indemnification of third parties and product liability claims of third parties.

From time to time, in the normal course of business, we indemnify third parties with whom we enter into contractual relationships. These contracts include certain customer contracts, real estate leases, and service agreements with our Directors under which we agree, under certain conditions, to indemnify and hold these parties harmless against specified losses and liabilities, such as those arising from a breach of representations or covenants, third party claims that our products when used for their intended purposes infringe the intellectual property rights of others, environmental and other liabilities, claims arising from our use of our leased premises or claims relating to our Directors' service with us. If these indemnified parties become involved in legal disputes in which they contend that we have indemnification obligations, we may be subject to potential liability. It is not possible to determine the maximum potential amount of liability under any indemnification obligations, whether or not asserted, due to our history of no prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim. We did not pay any indemnification during the Track Record Period.

We are exposed to risks associated with product liability claims relating to product malfunctions, defects, improper installations or other causes. We are unable to predict whether product liability claims will be brought against us in the future or to predict the effect of any resulting adverse publicity on our business. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. Moreover, we do not carry any product liability insurance and may not have adequate resources to satisfy a judgment in the event of a successful claim against us.

Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products if these claims are successful.

In the course of our business, we may receive claims of infringement or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties. The optical communications industry is characterized by vigorous protection and pursuit of intellectual property rights and positions. For example, on 20 August 2008, we entered into a confidential settlement agreement related to a patent infringement dispute, in which we were named as a defendant, with Oplink Communications, Inc., alleging trade secret misappropriation and other related claims. Pursuant to the settlement agreement, the parties agreed to a license agreement and other settlement provisions. A stipulation dismissing all claims with prejudice was filed with the court jointly by the parties in September 2008. We or our customers may be required to obtain licenses for such patents and if we need to license any such patents, we could be required to pay royalties on certain of our products. We cannot assure you that if we are required to obtain patent licenses to develop and sell our optical communications products, we will be able to obtain such patent licenses on commercially reasonable terms or at all, or if our customers are required to obtain such patent licenses, our customers' businesses will not be adversely affected. Our inability to obtain these patent licenses on commercially reasonable terms or at all could have a material adverse impact on our business, results of operations, financial condition or prospects. We may be unaware of intellectual property rights of others that may cover some of our technology, products and services. In addition, third parties may claim that we or our customers are infringing or contributing to the infringement of their intellectual property rights.

Any litigation regarding patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. Because of the complexity of the technology involved and the uncertainty of litigation generally, any intellectual property litigation involves significant risks. Moreover, patent litigation has increased in recent years due to the increased numbers of cases asserted by intellectual property licensing entities and increasing competition and overlap of product functionality in our markets. If there is a successful intellectual property infringement claim against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sale of our products, develop non-infringing technology, enter into costly royalty or license agreements or indemnify our customers as our customer contracts generally require. We may not be successful in implementing these types of measures on terms acceptable to us or at all. Parties asserting infringement claims against us may also be able to obtain an injunction against development and sale of our products containing the allegedly infringing intellectual property. Any intellectual property litigation or successful claim could have a material adverse effect on our business, operating results and financial condition.

We may not be able to increase our production capacity or output in order to increase our sales and gain additional market share.

We need to increase our production capacity and output to be able to meet the growing demand of our customers and our strategy includes an expansion of our production capacity. To accommodate our business expansion plan, we have acquired approximately 38,000 square meters of land in Pingshan New District, Shenzhen City, China in 2007 on which we plan to construct a new manufacturing facility and dormitories to be occupied by our workers.

Our expansion plan requires increases in personnel and production and ancillary equipment. Our business is very labor-intensive, and from time to time we have experienced difficulty in recruiting and retaining assembly workers as competition for such workers in recent years has increased in the Pearl River Delta region of China. With our planned expansion, these types of difficulties may become more significant.

We cannot assure you that we will be able to implement our business expansion plan on a timely basis or at all. Our ability to successfully implement our business expansion plan to establish additional manufacturing capacity and to increase our output and sales is subject to various risks and uncertainties, including:

- the need to procure additional equipment at reasonable costs and on a timely basis;
- the need to procure sufficient raw materials, packages and components that we use as inputs in our manufacturing processes at reasonable costs and on a timely basis;
- the need to raise additional funds to finance our purchase of additional raw materials, packages and components, our purchase of equipment and the construction of additional manufacturing facilities, which we may be unable to obtain on reasonable terms or at all;
- construction delays and cost overruns;

- difficulties in recruitment and training of additional skilled employees, including technicians and managers at different levels;

- diversion of significant management attention and other resources; and

- delays or denials of required approvals for our land acquisition and plant construction by relevant government authorities.

Our expansion plan contemplates an increase in production capacity and we cannot assure you that we can successfully implement our expansion plan or manage such an expanded capacity. If we fail, or encounter significant delays, in our efforts to establish or successfully utilize additional manufacturing capacity or to increase our manufacturing output, we will be unable to increase sales and capture additional market share, and our results of operations will be adversely affected.

Our inventory may become obsolete.

Our success in sales and operations depends largely on our ability to estimate and manage our inventory in order to meet the changing requirements of our customers, to obtain and remain up-to-date with the technological expertise in the manufacturing and production processes, and to timely respond to the constantly advancing communications industry and the changes in the market conditions.

If we are unable to estimate our inventory accurately or respond to the changes in market demands or technological advances in an effective manner, demand for our products may decrease and our inventory may become obsolete. We review our inventories annually to identify slow moving or obsolete inventories and assess declines in market value of our inventories. Based upon our projection of market demands, we record write-down of inventories where events or changes in circumstances indicate that the obsolete inventories may never be realized. Write-down of inventories was included in the cost of sales in our combined financial information during the Track Record Period and any increase in write-down of inventories will result in a corresponding increase in our cost of sales and a corresponding decrease in our gross profit. Our cost of sale for the three years ended 31 December 2007, 2008 and 2009 included write-down of inventories of HK$0.64 million, nil and HK$0.98 million, respectively. If our estimate of the net realizable value, being the estimated selling price in the ordinary course of business less applicable variable selling expenses, is below the cost of the inventory, we record a provision against the inventory for the difference between the net realizable value and cost, resulting in a corresponding decrease in our inventories which were recognized as current assets in our combined financial information during the Track Record Period. Our provision for write-down of inventories to net realizable values as at 31 December 2007, 2008 and 2009 was HK$1.4 million, HK$1.5 million and HK$2.5 million, respectively. If we fail to estimate and manage our inventory properly, or if the actual market conditions are less favorable than those projected by us, additional inventory write-down or provisions may be required and our results of operation will be adversely affected.

Our business is labor-intensive and we may experience increasing difficulty in retaining qualified personnel to meet our demands.

The success of our business relies significantly on our ability to attract and retain qualified personnel, especially skilled assembly workers and operators for our manufacturing facilities as well as experienced technical staff for our production engineering team. We also need to recruit highly-skilled research and development personnel to maintain and enhance our competitive edge. As at 31 December 2009, we had 1,518 employees, of whom 992 served manufacturing functions, 239 belonged to our production engineering team, and 63 were dedicated members of our research and development division, which in the aggregate contributed to over 85.0% of our total employees. If we fail to recruit and retain these personnel to meet our needs, our business operation will be harmed and we may not be able to grow our business as planned.

As a result of the rapid economic growth in the PRC and the increase in demand for labor in the Pearl River Delta region, factories in this region have been facing a shortage of labor supply and increased labor costs in recent years. During the Track Record Period, we have from time to time experienced difficulty in recruiting and retaining assembly workers due to the increasing competition for such workers in the Pearl River Delta region. For the three years ended 31 December 2007, 2008 and 2009, our staff costs amounted to HK$45.8 million, HK$57.1 million and HK$61.5 million, respectively. The increase in the staff costs during the Track Record Period was primarily due to an increase of the number of our staff during the Track Record Period and the competition for qualified workers in the Pearl River Delta region and as a result higher compensation required to attract and retain such workers.

Competition for qualified employees is intense, and the process of recruiting personnel with the combination of skills and attributes necessary to execute our strategy can be difficult, time-consuming and expensive. If we are unable to maintain sufficient labor for our manufacturing activities or fail to recruit and retain talent for our production engineering and research and development teams, our productivity may decrease and we may lose our competitive position which will have a negative impact on the results of our operations.

We face various risks related to our manufacturing operations that may adversely affect our business.

We may experience delays, disruptions or quality control problems in our manufacturing operations, and, as a result, our product shipments to customers could be delayed beyond shipment schedules, which would negatively affect our business, results of operations and financial condition. In the past, we have experienced disruptions in the manufacturing of some of our products due to changes in our manufacturing processes, which resulted in reduced manufacturing yields, delays in the shipment of our products and deferral of revenue recognition. Also, relocation of operations to expanded facilities could result in manufacturing disruptions. Any disruptions could adversely affect our revenues, gross margins and results of operations. Changes in our manufacturing processes, or the inadvertent use of defective materials could significantly reduce our manufacturing yields and product reliability. Lower than expected manufacturing yields could delay product shipments and further impair our gross margins.

For example, at the request of a customer we changed our testing process for our WDM products. In this particular example, to demonstrate the impact on our manufacturing process, our operating data showed the unit cost was increased by approximately 5.0%, the gross profit margin was reduced by approximately 3.0%, the manufacturing yields were reduced by 2.4%, the manufacturing hours per unit were increased by 10.0% and the lead time was increased by five days.

We may need to develop new manufacturing processes and techniques that will involve higher levels of automation to keep pace with technological developments in our industry. If we fail to effectively manage this process, or if we experience delays, disruptions or quality control problems in our manufacturing operations, our shipments of products to our customers could be delayed, which could adversely affect our operating results and financial condition.

Our manufacturing facilities could be damaged from accidents or national disasters. In such event, the coverage under our property casualty insurance policy and business interruption insurance policy may be inadequate or subject to exclusions depending on the facts and circumstances of individual occurrences. Further, we have limited control over the actual processing time and procedure which our insurance carrier will require to review the insurance claims. As a result, any business disruption, accident or natural disaster could result in substantial losses and diversion of our resources.

Our business and operations would be adversely impacted in the event of a failure of our information technology infrastructure.

We rely upon the capacity, reliability and security of our information technology hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. We are constantly updating our information technology infrastructure. For example, we continually upgrade and add new features and functions to our FIS to cover more products. Any failure to manage, expand and update our information technology infrastructure or any failure in the operation of this infrastructure could harm our business.

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. To the extent that any disruption or security breach results in a loss of or damage to our data, or in inappropriate disclosure of confidential information, it could harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Increases in electricity costs and electricity supply shortages may adversely affect our operations.

We are dependent on electricity in our operations. With the rapid development of the Chinese economy, demand for electricity has increased, particularly in the Pearl River Delta region of China where we operate. There have been shortages in electricity supply in various regions across China, especially during peak seasons, such as summer. Electrical outages have disrupted and in the future could disrupt our coating and other manufacturing processes. For example, we experienced unscheduled power outages in the past. Such disruptions could occur in the future. Increases in electricity costs or shortages in electricity supply may disrupt our normal operations and adversely affect our profitability.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations.

The global capital and credit markets have been experiencing extreme volatility and disruption in recent times. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the level of asset prices and valuations in the US and elsewhere have contributed to unprecedented levels of market volatility and diminished expectations for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possibly prolonged global recession. These events have led to a slowdown in the global economy which a number of economists predict could be significant and protracted. As a result, the demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition and results of operations.

Our revenue for the first quarter of 2009 dropped significantly which was primarily attributable to a reduction of sales due to the global economic and financial crisis that commenced in the forth quarter of 2008 and worsened in the first quarter of 2009. While we offered customary annual price concessions to our existing customers for existing products in our ordinary course of business, our Directors exercised their business judgment and decided not to reduce the sales price of our products as a direct solution to the reduction of sales during the aforementioned periods. Therefore, the sales price of the Company's products during the Track Record Period was not materially affected by the global economic and financial crisis. As the global economic situation started to improve in the second quarter of 2009, especially in Asia, we experienced a strong and steady recovery of sales during the last three quarters of 2009, primarily driven by the increasing demand from customers in the PRC and other Asian countries and the increasing demands for our transmission products such as our new wavelength locker product.

If information networks do not continue to expand as expected, our business will be adversely impacted.

Our future success as a manufacturer of optical subcomponents, components, modules and subsystems ultimately depends on the continued growth of the communications industry and, in particular, the continued expansion of global information networks. As part of that growth, we are relying on increasing demand for high-content voice, video, text and other data delivered over high-speed connections (high-bandwidth communications). As network usage and bandwidth demand increase, so does the need for advanced networks to provide the required bandwidth, as well as for advanced instruments and equipment to facilitate the installation, maintenance and operation of these networks. Lack of network and bandwidth growth would jeopardize the need for our products and future growth. Currently, while increasing demand for network services and for broadband access, in particular, is apparent, several factors limit potential growth, including, among others, an uncertain regulatory environment, reluctance from content providers to supply video and audio content over the communications infrastructure and uncertainty regarding long-term sustainable business models, as multiple industries including cable television, conventional telecommunications and wireless communication offer non-complementary and competing content delivery solutions.

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights, which may not be sufficient to protect our intellectual property. As at the Latest Practicable Date, we had 31 patents and 29 pending patent applications in China, three PCT applications in the PRC and five pending patent applications in the United States. Chinese intellectual property-related laws have historically been ineffective, primarily because of ambiguities in Chinese laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as those in more developed countries. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we have taken may be inadequate to prevent the misappropriation of our technology. Reverse engineering, unauthorized copying or other misappropriation of our technologies could enable third parties to benefit from our technologies without paying us. In addition, others may independently develop similar proprietary information and techniques, gain access to our intellectual property rights, disclose such technology or design around our patents. A large number of third parties hold patents or have patent applications pending that relate to core technologies used in optical communications. Additionally, we cannot assure you that any patent or registered trademark owned by us will be enforceable or that it will not be invalidated, circumvented or otherwise challenged, that the rights granted thereunder will provide competitive advantages to us or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all. Furthermore, litigation may be necessary to enforce our patents and other intellectual property rights, protect our trade secrets, determine the validity of and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Litigation of this type could result in substantial costs and diversion of resources that could harm our business, could ultimately be unsuccessful in protecting our intellectual property rights and may result in our intellectual property rights being held invalid or unenforceable.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Changes in China's political and economic policies and conditions could adversely affect our business and prospects.

China has been, and will continue to be, our primary operation base. Although the PRC Government has been pursuing economic reforms to transform its economy from a planned economy to a market-oriented economy since 1978, a substantial part of the Chinese economy is still being operated under various government controls. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC Government exerts considerable direct and indirect influence on the development of the Chinese economy. Some of the economic reforms carried out by the PRC Government are unprecedented or experimental and are expected to be refined and improved. Other political, economic and social factors may also lead to further adjustments of the Chinese reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and our future business development. For example, the PRC Government has in the past implemented a number of measures intended to slow down certain segments of the Chinese economy that the government believed to be overheating, including placing additional limitations on the ability of commercial banks to make loans, by raising bank reserves against deposits. Our business, prospects and results of operations may be materially and adversely affected by changes in the Chinese economic and social conditions and by changes in the policies of the PRC Government, such as measures to control inflation, changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion.

Uncertainties with respect to the Chinese legal system could adversely affect us.

We are a holding company established in the Cayman Islands and conduct our business operations through our subsidiary incorporated in China. This subsidiary is generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to FIEs.

When the PRC Government started its economic reform in 1978, it began to formulate and promulgate a comprehensive system of laws and regulations to provide general guidance on economic and business practices in China and to regulate foreign investments. China has made significant progress in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have a negative impact on our business and prospects. The Chinese legal system is a civil law system based on written statutes. Unlike the common law system, the Chinese legal system is a system in which prior court decisions may be cited for reference but have little precedential value. In addition, since the Chinese legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform. The enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Furthermore, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Restrictions on foreign currency exchange may limit our ability to distribute dividends or to use financing effectively.

A substantial portion of our revenues and expenses are denominated in Renminbi. We may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including, among others, payment of dividends declared, if any, in respect of our Shares. Under China's existing foreign exchange regulations, dividend payments to foreign shareholders of FIEs constitute current account transactions. Accordingly, our PRC subsidiary, which is an FIE, is able to pay dividends in foreign currencies, without prior approval from the SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC Government will not take further measures in the future to restrict access to foreign currencies for current account transactions.

Foreign exchange transactions by our subsidiary in China under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC Governmental authorities. In particular, if our PRC subsidiary borrows foreign currency loans from us or other foreign lenders, these loans must be registered with the SAFE. If we finance them by means of additional capital contributions using, for instance, proceeds from the Global Offering, these capital contributions must be approved or registered by certain governmental authorities including the SAFE, MOFCOM or their local counterparts. These limitations could affect the ability of these entities to obtain foreign exchange through debt or equity financing, and therefore could affect our business and financial condition.

Fluctuation in the value of the Renminbi could expose us to foreign currency risks and may have an adverse effect on our financial position.

Our costs are predominantly in Renminbi, whereas our revenues are mainly in US dollars and Renminbi. The value of the Renminbi against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. The PBOC issued a public notice (中國人民銀行關於完善人民幣滙率形成機制改革的公告) on 21 July 2005 increasing the exchange rate of the Renminbi against the US dollar by approximately 2% to RMB8.11 per US$1.00. Further to this notice, the PRC Government has reformed its exchange rate regime by adopting a managed floating exchange rate regime based on market supply and demand with reference to a portfolio of currencies. Under this regime, the Renminbi is no longer pegged to the US dollar. We cannot predict how and to what extent the exchange rate of the Renminbi will fluctuate in the future.

We face foreign exchange and conversion risks primarily through sales that are denominated in currencies other than the Renminbi. During the years ended 31 December 2007, 2008 and 2009, approximately 81.3%, 75.1% and 64.2% of our sales were denominated in US dollars, respectively. Any appreciation of the Renminbi against the US dollar and other currencies may have the effect of rendering our exports more expensive and less competitive than products from manufacturers in other countries. Our exchange loss for the each of years ended 31 December 2007, 2008 and 2009 was approximately HK$4.9 million, HK$5.9 million and HK$0.6 million, respectively. In addition, to the extent that we need to convert Hong Kong dollars we receive from the Global Offering into Renminbi for our operations, appreciation of the Renminbi against the Hong Kong dollar could have a material adverse effect on our business, financial condition and results of operations.

Conversely, as we rely entirely on dividends paid to us by our PRC subsidiary, any depreciation of the Renminbi may materially and adversely affect our cash flows, revenue and financial condition, and the value of, and any dividends payable on, our Shares in foreign currency terms. Further information on our foreign exchange risks and certain exchange rates is set forth in the section headed "Financial Information – Quantitative and Qualitative Disclosure about Market Risk – Foreign Exchange Rate Risk" in this prospectus.

Expiration of, changes to, or our failure to qualify for current Chinese tax incentives that our business enjoys could have a material adverse effect on our results of operations.

In March 2007, China's legislature, the National People's Congress (全國人民代表大會), enacted a new Enterprise Income Tax Law, or the EIT Law, which became effective on 1 January 2008. In December 2007, the PRC State Council (中華人民共和國國務院) promulgated the Implementation Regulations of PRC EIT Law, or the EIT Implementation Regulation, which also became effective on 1 January 2008. The EIT Law imposes a unified income tax rate of 25% on all domestic enterprises and FIEs unless they qualify under certain limited exceptions.

Our PRC subsidiary, O-Net Shenzhen, has enjoyed certain preferential tax treatments during the Track Record Period; during the Track Record Period, the generally applicable tax rate has changed to 25% since the EIT Law took effect. According to the previous tax regulations that had expired when the EIT Law took effect, O-Net Shenzhen, as a FIE with an operating term of more than ten years, was exempt from the income tax for two years starting from the first year that it began to make profit, namely the two years ended 31 December 2007, and is entitled to a 50% reduction in the income tax for the three years thereafter, namely 2008, 2009 and 2010. According to the EIT Law, O-Net Shenzhen has continued to enjoy such preferential tax treatments since the EIT Law took effect on 1 January 2008.

In addition, O-Net Shenzhen is a FIE located in Shenzhen, one of the Special Economic Zones of the PRC, and therefore enjoyed a preferential income tax rate of 15% before the EIT Law took effect. According to the EIT Law and the Notice on the Policy of Enforcing Transitional Preferential Treatment of Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) promulgated on 26 December 2007 by the State Council, O-Net Shenzhen is subject to an income tax rate of 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and every year thereafter unless it is also entitled to other preferential tax treatments.

Meanwhile, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It would be entitled to a concessionary income tax rate of 15%. Given that adopting the applicable transitional income tax rates and the "2-year exemption and 3-year half payment" is more preferential and beneficial to O-Net Shenzhen, the income tax rate applicable to O-Net Shenzhen is 15% for 2007, 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and every year thereafter unless it will be entitled to other tax incentives. After offsetting all unexpired tax losses carried forward from previous years, the "2-year exemption and 3-year half payment" tax preferential period started from 2006 which was the first profit making year of O-Net Shenzhen. According to a confirmation issued by Shenzhen Nanshan Local Tax Authority (深圳市南山區地方稅務局) dated 10 March 2010, O-Net Shenzhen's first year of profit making was 2006 and it started to enjoy two years of full tax exemption from 2006. Therefore, O-Net Shenzhen was exempt from income tax in 2006 and 2007. From 2008 to 2010, O-Net Shenzhen has been and will be entitled to a 50% reduction of the income tax. The income tax rate for 2011 is 24% and from 2012, O-Net Shenzhen will be subject to the regular income tax rate of 25% unless O-Net Shenzhen can be qualified as a High Technology Enterprise with priority support by the state government (as O-Net Shenzhen currently is), in which event O-Net Shenzhen will be subject to a preferential tax rate of 15% under current PRC tax laws and regulations.

As at the Latest Practicable Date, O-Net Shenzhen had an outstanding enterprise income tax of approximately RMB1.3 million for the year 2008 as result of an issue of confirmation from the Shenzhen Nanshan Local Tax Authority (深圳市南山區地方稅務局) dated 10 March 2010 stating a change in the first year of profit-making of O-Net Shenzhen. According to the Law of PRC Concerning the Administration of Tax Collection (中華人民共和國稅收徵收管理法), any enterprise not paying the enterprise income tax in the specified period is subject to a daily 0.05% surcharge unless otherwise provided. We will pay such outstanding enterprise income tax in respect to O-Net Shenzhen and we understand that it is customary for the relevant tax bureau to confirm the amount of surcharge, if any, nearer the time of payment. As at the Latest Practicable Date, we have not received any notification regarding the imposition of or demand for such tax and related surcharges (if any).

If our current tax benefits expire or otherwise become unavailable to us for any reason, our profitability may be materially and adversely affected.

Dividends payable to investors and gains on the sale of the Shares may become subject to withholding taxes under PRC tax laws which may adversely affect the value and gains of investment in the Shares.

Under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered Chinese resident enterprises and therefore be subject to Chinese enterprise income tax at the rate of 25% on their worldwide income. The Implementation Regulations of PRC EIT Law defines the term "de facto management bodies" as management bodies that exercise full and substantial control and management over the operation, personnel, financial management and assets of an enterprise.

If a majority of the members of our management team continue to be located in China, we may be considered a Chinese resident enterprise and therefore be subject to Chinese enterprise income tax at the rate of 25% on our worldwide income.

Under the EIT Law and Implementation Regulations of PRC EIT Law, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% PRC income tax if the gain is regarded as income derived from sources within the PRC. If the Company is considered a PRC "resident enterprise", it is unclear whether the dividends to be paid in respect of the Shares, or the gain investors may realize from the transfer of the Shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If the Company is required under the EIT Law to withhold PRC income tax on dividends payable to its foreign Shareholders, or if investors are required to pay PRC income tax on the transfer of their Shares, the value and gains of their investment in the Shares may be materially and adversely affected.

Our PRC subsidiary is subject to existing restrictions on paying dividends or making other distributions to the Company and changes in foreign exchange regulations may adversely affect our business, financial condition and results of operations.

The Company is a holding company incorporated in the Cayman Islands, and it relies on dividends paid by its PRC operating subsidiary for its cash requirements, including the funds necessary to pay dividends and other cash distributions to Shareholders, to service any debt it may incur, and to pay its operating expenses. PRC regulations currently permit payment of dividends only out of accumulated profits, as determined in accordance with the accounting standards and regulations in the PRC, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including the HKFRS. Our PRC subsidiary is required to set aside at least 10% of its accumulated profits after tax each year, if any, to fund certain reserve funds, until the aggregate accumulated reserve funds exceeds 50% of its registered capital. These reserve funds cannot be distributed as cash dividends. In addition, if our PRC subsidiary incurs debt on its own or enters into certain other agreements in the future, the instruments governing the debt or such other agreements may restrict its ability to pay dividends or make other distributions to the Company. Therefore, these restrictions on the availability and usage of the Company's major source of funding may materially and adversely affect its ability to pay dividends to Shareholders and to service its debts.

Pursuant to the EIT Law and the Implementation Regulations of PRC EIT Law, dividends payable by an FIE to its foreign investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. BVI, where O-Net BVI is incorporated, does not have such a tax treaty with the PRC.

PRC regulations on direct investment and loans by offshore holdings companies to PRC entities may delay or limit the Company from making loans to its PRC subsidiary.

Any capital contribution or loans that the Company, as an offshore entity, makes to its PRC subsidiary, are subject to PRC regulations. For example, any loans by the Company to any PRC subsidiary cannot exceed the difference between the total amount of investment that such PRC subsidiary is approved to make under relevant PRC laws and the registered capital of such PRC subsidiary, and any such loans must be registered with the local branch of SAFE. In addition, the Company's additional capital contributions to its PRC subsidiary must be approved by MOFCOM or its local counterpart. The Directors cannot be certain that the Company will be able to obtain these approvals on a timely basis, or at all. If the Company fails to obtain such approvals, its ability to make equity contributions or provide loans to its PRC subsidiary or to fund its operations may be adversely affected, which could harm the Company's PRC subsidiary's liquidity and its ability to fund its working capital and expansion projects and meet its obligations and commitments.

It may be difficult to effectuate service of process upon us or our Directors or executive officers who live in China or to enforce against them in the PRC judgments obtained from non-PRC courts.

All of our assets are, and our operating subsidiary is, located in China. In addition, most of our Directors and officers reside within China, and the assets of our Directors and officers may also be located mostly within China. As a result, it may not be possible to effect service of process outside China upon most of our Directors and officers for violations of laws of jurisdictions other than China, including matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. Our PRC legal advisors, Global Law Office, have advised us that China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC of court judgements from Japan, the United Kingdom and the United States in relation to any matter not subject to a binding arbitration provision is subject to uncertainties.

Our financial results may be adversely affected by the new PRC Labor Contract Law and competition within the PRC for skilled and experienced workers.

As at 31 December 2009, we employed 1,518 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labor law, namely, the PRC Labor Contract Law, which became effective on 1 January 2008. The PRC Labor Contract Law imposes requirements relating to, among others, the types of contracts to be executed between an employer and an employee, and establishes time limits for probation periods and provides for how long and how many times an employee can be placed on a fixed-term employment contract. It also requires that social insurance be paid on behalf of employees, otherwise employees are entitled to unilaterally terminate the labor contract. Under the PRC Labor Contract Law, when we terminate our PRC employees' employment, we are required to compensate them for an amount which is determined based on their length of service with us. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to effect these changes cost-effectively or in the manner we desire, which could negatively impact our results of operations. In addition, we have recently experienced increases in our labor costs as a result of increased compensation required to attract and retain skilled and experienced workers at our manufacturing facilities.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARE PERFORMANCE

There has been no prior public market for the Shares and the liquidity and market price of the Shares may be volatile and could result in substantial losses for investors purchasing the Shares in the Global Offering.

Prior to the Listing, there has been no public market for the Shares. The Offer Price will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters) and us and may differ from the market prices for the Shares after the Listing. We have applied to the HKSE for the listing of, and permission to deal in, the Shares. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for the Shares. The pricing and trading volume of the Shares may be volatile. The market price of the Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- variations in the results of our operations;
- changes in securities analysts' analysis of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;
- addition or departure of key personnel;
- fluctuations in stock market prices and volume;
- involvement in litigation; and
- general economic and stock market conditions.

Stock markets and the shares of Chinese companies have experienced increasing price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of the Shares.

Our two principal Shareholders, O-Net Holdings and Hong Kong Kaifa, each have substantial control over our Company and their interests may not be aligned with the interests of our other Shareholders.

Following the Global Offering, O-Net Holdings and Hong Kong Kaifa will own approximately 38.19% and 34.50%, respectively, and 72.69% in combination, of our outstanding Shares (assuming no exercise of the Over-allotment Option). O-Net Holdings is a holding company controlled by the Mandarin IT Fund I. As a result, acting together, Hong Kong Kaifa and the Mandarin IT Fund I would be in a position to remove our Directors and control the outcome of most matters submitted to our Shareholders' meetings for a vote. Each of these Shareholders will also be able to control or significantly influence the outcome of any vote on any proposed amendment to our Articles, merger proposals, any proposed substantial sale of assets or other major corporate transactions. The interests of each of these Shareholders could conflict with your interests, which could adversely affect your investment in our Company or the investments of our other Shareholders.

Future sales by our existing Shareholders of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares.

Future sales of a substantial number of the Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of the Shares and the Company's ability to raise equity capital in the future at a time and price that the Company deems appropriate. The Shares held by the Controlling Shareholders are subject to certain lock-up undertakings, details of which are set forth in the section headed "Underwriting" of this prospectus. While the Company is not aware of any intentions of these Shareholders to dispose of significant amounts of their Shares after the completion of the lock-up periods, there is no assurance that they will not dispose of any Shares they may own now or in the future.

We may not be able to pay any dividends on the Shares.

Subject to the Cayman Islands Companies Law, our Company may declare dividends in any currency to be paid to the Shareholders, but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles provide dividends may be declared and paid out of the profits of our Company, realized, or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. Our Company can also pay dividends out of the share premium with the approval of our Shareholders and subject to a statutory solvency test. There is no assurance that we will declare dividends of similar amounts at similar rates or at all in the future. Future dividends, if any, will be recommended at our Board's discretion and will depend on our future results of operations, capital requirements, financial condition, legal and contractual restrictions and other factors deemed relevant by the Board.

We cannot guarantee the accuracy of facts and other statistics derived from government official publications with respect to China, the PRC economy and the PRC optical networking industry contained in this prospectus.

Certain facts and other statistics in this prospectus relating to China, the PRC economy and the PRC optical network industry have been derived from government official publications. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. They have not been prepared or independently verified by us, the Sole Sponsor, and any of our or the Sole Sponsor's respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China.

Investors should not rely on any information contained in press articles or other media regarding our Company or the Global Offering.

Prior to the publication of this prospectus, there was a press report in the 13 April 2010 edition of the Ming Pao Daily News regarding our Company and the Global Offering. Such press and media coverage may include references to certain events or information that do not appear in this prospectus, including certain financial information, financial projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to subscribe for our Shares.

In preparation for the Listing, our Company has sought the following waiver from strict compliance with the relevant provision of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations are managed and conducted primarily in Shenzhen, the PRC, and all the executive Directors and the non-executive Directors, except for Mr. Ong Chor Wei and Mr. Tam Man Chi, currently reside in the PRC, our Company considers that it would be practically difficult and commercially unnecessary to either relocate two executive Directors to Hong Kong or to appoint two additional executive Directors who are ordinarily resident in Hong Kong. We do not have, and do not contemplate in the foreseeable future that we will have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules. Therefore, we have applied to the HKSE for, and the HKSE has granted, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules and the following arrangements have been made for maintaining regular and effective communication with the HKSE:

(a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the HKSE. The two authorized representatives who have been appointed are Mr. Na Qinglin, an executive Director and Mr. Lee Hang Tat (the company secretary of the Company). Mr. Lee Hang Tat ordinarily resides in Hong Kong and has the requisite qualifications and experience to serve as an authorized representative. The authorized representatives and the alternate authorized representative of Mr. Na Qinglin (Mr. Xue Yahong, who is also an executive Director) will be available to meet with the HKSE on reasonable notice as and when required and will be able to contact the Directors promptly at all times by telephone, facsimile and email as and when the HKSE wishes to contact the Directors on any matters;

(b) each of our two authorized representatives and the alternate authorized representative of Mr. Na Qinglin will be readily available by telephone, email and facsimile to promptly address the inquiries of the HKSE and their contact details (including mobile phone numbers, residential and office phone numbers and facsimile numbers) will be provided to the HKSE;

(c) all Directors will provide their mobile phone numbers, residential and office phone numbers, facsimile numbers and email addresses to the HKSE;

(d) each of the Directors (including the independent non-executive Directors) holds valid travel documents such that he will be available to travel to Hong Kong to meet with the HKSE within a reasonable time frame upon request of the HKSE. Each of the Directors will be readily contactable by telephone, facsimile and email, and is authorized to communicate on behalf of our Company with the HKSE;

(e) we will appoint Quam Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules who will have access at all times to the authorized representatives and the alternate authorized representative, the Directors and the other senior management of our Company. The compliance advisor will be appointed for a period commencing on the date on which our Shares commence trading on the HKSE and ending on the date on which our Company distributes the annual report for the first full financial year after the date on which our Shares commence trading on the HKSE in accordance with Rule 13.46 of the Listing Rules; and

(f) meetings between the HKSE and the Directors could be arranged through the authorized representatives or our compliance advisor, or directly with the Directors within a reasonable time frame. We will inform the HKSE promptly in respect of any change in the authorized representatives, alternate authorized representative and/or compliance advisor.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information about us. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by the Company, the Over-allotment Grantors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of their respective directors, agents, employees, advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

This prospectus is published solely in connection with the Hong Kong Public Offering. It may not be used for any other purpose and, in particular, no person is authorized to use or reproduce this prospectus or any part thereof in connection with any offering, or invitation to the offer, of the Shares or other securities of the Company. Accordingly, there is no, and will not be any, offer of or solicitation, or an invitation by or on behalf of the Company, the Sole Global Coordinator or the Over-allotment Grantors to subscribe for or purchase any of the Shares. Neither this prospectus nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Listing may be used for the purpose of making, and the delivery, distribution and availability of this prospectus or such other document or information (or any part thereof) does not constitute, any offer of or solicitation or an invitation by or on behalf of the Company, the Sole Global Coordinator or the Over-allotment Grantors to subscribe for or purchase any of the Shares.

UNDERWRITING

The Hong Kong Public Offering is part of the Global Offering which comprises the Hong Kong Public Offering of initially 19,328,000 Hong Kong Offer Shares and the International Offering of initially 173,952,000 International Offer Shares.

The application for the listing of the Shares on the HKSE is sponsored by the Sole Sponsor. The Hong Kong Public Offering will be underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to us and the Sole Global Coordinator, on behalf of the Underwriters, agreeing on the Offer Price on the Price Determination Date, which is expected to be on or around 23 April 2010 and, in any event, no later than 24 April 2010. If, for any reason, the Offer Price is not agreed by 24 April 2010 between the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Over-allotment Grantors), the Global Offering will not proceed and will lapse. The International Offering is expected to be underwritten by the International Underwriters. The Global Offering is managed by the Sole Global Coordinator, who is also one of the Joint Bookrunners and one of the Joint Lead Managers for the Global Offering.

Further information about the Underwriters and the underwriting arrangements is set forth in the section entitled "Underwriting" of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section entitled "Structure of the Global Offering" in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to confirm, or by his acquisition of the Offer Shares be deemed to confirm, that he is aware of the restriction on offers or sales of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of our Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering or sale of our Offer Shares in certain jurisdictions is restricted by law. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it circulated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered for subscription and sale solely on the basis of the information contained and representations made in this prospectus. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, any of their respective directors, agents, employees or advisors or any other persons or parties involved in the Global Offering.

Prospective applicants for Offer Shares should consult their tax and financial advisors and seek legal advice as appropriate, to inform themselves of, and to observe all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE HKSE

Application has been made to the Listing Committee for listing of, and permission to deal in, the Shares in issue and any Shares to be issued pursuant to the Global Offering (including any Over-allotment Shares which may be sold under the Over-allotment Option) and any Shares which may fall to be issued pursuant to the exercise of the Share Option Scheme. Except as disclosed in this prospectus, no part of the Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the HKSE are expected to commence at 9:30 a.m. on Thursday, 29 April 2010. Shares on the HKSE will be traded in board lots of 1,000 each.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the HKSE and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the HKSE or on any other date HKSCC chooses. Settlement of transactions between participants of the HKSE is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the CCASS Rules in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisors.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Shares, you should consult an expert. It is emphasized that none of the Company, the Over-allotment Grantors, the Sole Sponsor, the Underwriters, any of their respective directors, agents, employees, advisors or affiliates or any other person involved in the Listing accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Shares. Further details of such tax implications is set out in "Appendix V – Summary of the Constitution of the Company and Cayman Islands Companies Law" of this prospectus.

REGISTERS AND HONG KONG STAMP DUTY

Our principal register of members is maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited, Cayman Islands. Our register of members will be maintained by our Hong Kong Share Registrar.

Dealings in Shares registered on the Company's Hong Kong Share Register will be subject to Hong Kong stamp duty.

Unless the Company determines otherwise, dividends in respect of Shares will be declared and payable in Hong Kong dollars and will be paid to the Shareholders listed on the Hong Kong Share Register by ordinary post at the Shareholders' risk to the registered address of each Shareholder or, in the case of joint holders, the first-named holder.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Na Qinglin	Flat 16B, 1st Building, Block 4 Group II, Shijicun Nanshan District Shenzhen, PRC	Chinese
Mr. Xue Yahong	Room 2-403, Building #6 Lian Hua Yi Cun Futian District Shenzhen, PRC	Chinese
Non-Executive Directors		
Mr. Tam Man Chi	Flat 33, G/F, Stg 2, Windsor Park 1 Ma Lok Path Shatin, New Territories Hong Kong	British
Mr. Chen Zhujiang	Room 803-24 Building Qianhaihuayuan Nanshan District Shenzhen, PRC	Chinese
Mr. Huang Bin	#17 Xisongshu Bystreet Hepingmennei Xicheng District Beijing, PRC	Chinese
Independent Non-Executive Directors		
Mr. Bai Xiaoshu	Room 19E, Building #4 Yongxin Ga 100 Xingeng Road Xuhui District Shanghai, PRC	Canadian
Mr. Deng Xinping	No.9, the 23rd Street, Fengmin Yuan Phoenix City Guangyuan East Road Guangzhou, PRC	Chinese
Mr. Ong Chor Wei	Flat A, 3/F Greenview Gardens No. 125 Robinson Road Hong Kong	Malaysian

PARTIES INVOLVED

Sole Global Coordinator	CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong
Joint Bookrunners and Joint Lead Managers	CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong Piper Jaffray Asia Securities Limited 3901B, 39/F, Tower 1 Lippo Centre 89 Queensway Hong Kong
Sole Sponsor	CLSA Equity Capital Markets Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong
Hong Kong Underwriters	CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong Piper Jaffray Asia Securities Limited 3091B, 39/F, Tower 1 Lippo Centre 89 Queensway Hong Kong Sun Hung Kai International Limited 12th Floor, CITIC Tower 1 Tim Mei Avenue Hong Kong Tai Fook Securities Company Limited 25/F, New World Tower 16-18 Queen's Road Central Hong Kong

International Underwriters	CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong
	Piper Jaffray Asia Securities Limited 3091B, 39/F, Tower 1 Lippo Centre 89 Queensway Hong Kong
	Sun Hung Kai International Limited 12th Floor, CITIC Tower 1 Tim Mei Avenue Hong Kong
Legal advisor to the Company	As to Hong Kong law: Deacons 5th Floor, Alexandra House 18 Chater Road Central, Hong Kong
	As to Chinese law: Global Law Office 15th Floor Tower 1, China Central Place No. 81 Jianguo Road Chaoyang District Beijing 100025 China
	As to Cayman Islands law: Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands

Legal advisor to the Underwriters	As to Hong Kong law: Richards Butler in association with Reed Smith LLP 20th Floor, Alexandra House 16-20 Chater Road Central, Hong Kong As to US law: Reed Smith LLP 20th Floor, Alexandra House 16-20 Chater Road Central, Hong Kong As to Chinese law: Fangda Partners 35th Floor, China World Tower 1 1 Jian Guo Men Wai Avenue Beijing 100004 China
Auditors and reporting accountants	PricewaterhouseCoopers Certified Public Accountants 22nd Floor, Prince's Building Central, Hong Kong
Property valuer	Jones Lang LaSalle Sallmanns Limited 17th Floor Dorset House Tai Koo Place 979 King's Road Quarry Bay, Hong Kong
Receiving banker	Bank of China (Hong Kong) Limited Bank of China Tower 1 Garden Road Central, Hong Kong
Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands

Headquarter in the PRC	10-1 South Maqueling Industrial Park Nanshan District Shenzhen 518057 China
Principal place of business in Hong Kong	Unit 1608, West Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong
Website	www.o-netcom.com *(Note)*
Company secretary	Mr. Lee Hang Tat, *ACCA, AHKSA*
Authorized representatives	Mr. Na Qinglin Flat 16B, 1st Building Block 4 Group II, Shijicun Nanshan District Shenzhen China Mr. Lee Hang Tat, *ACCA, AHKSA* Room 11, 3/F Block A 343 Des Voeux Road West Hong Kong
Alternate authorized representative	Mr. Xue Yahong (alternate to Mr. Na Qinglin) Room 2-403 Building #6 Lian Hua Yi Cun Futian District Shenzhen China

Note: Our website and all of the information contained on our website do not form part of this prospectus.

CORPORATE INFORMATION

Audit Committee	Mr. Ong Chor Wei (Chairman) Mr. Bai Xiaoshu Mr. Deng Xinping
Remuneration Committee	Mr. Tam Man Chi (Chairman) Mr. Na Qinglin Mr. Bai Xiaoshu Mr. Deng Xinping Mr. Ong Chor Wei
Nomination Committee	Mr. Na Qinglin (Chairman) Mr. Bai Xiaoshu Mr. Deng Xinping Mr. Ong Chor Wei Mr. Tam Man Chi
Cayman Share Registrar	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal banker	China Merchants Bank Overseas Chinese City Branch 1st Floor, Service Centre Eastern Garden Overseas Chinese Town Shenzhen, China
Compliance advisor	Quam Capital Limited 32nd Floor, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong

Certain information set out in this section and elsewhere in this prospectus has been extracted from publications purchased by us from Ovum and Infostone, each being an Independent Third Party.

In addition, certain information in this section has been extracted from various official government publications and websites. We have taken reasonable care in the extraction and reproduction of such information presented in this section and elsewhere in this prospectus. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Neither the Sole Global Coordinator, the Sole Sponsor nor the Underwriters or any of their respective affiliates or advisors has independently verified the information directly or indirectly derived from these sources, and no representation is given as to its accuracy. For more information on the sources of information and statistics used in this section, see the section headed "About This Section" herein.

ABOUT THIS SECTION

General

This "Industry Overview" section quotes and includes information extracted from ready-made publications of Ovum, a Datamonitor company, purchased by us, and a commissioned market research report prepared by Infostone for purposes of this prospectus. We have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Neither the Sole Global Coordinator, the Sole Sponsor nor the Underwriters or any of their respective affiliates or advisors has independently verified the information directly or indirectly derived from these sources and no representation is given as to its accuracy.

The following sets forth certain information about the background of Ovum and Infostone and the reports we have used to prepare this "Industry Overview" section.

- Ovum, a Datamonitor company, is a research, consulting and analysis group with a 25 year history of advising enterprises and their suppliers on the business value of information and communication technologies. The publications we purchased from Ovum are ready made reports including a 26 September 2009 report titled "Market Share: 2Q09 optical networks, global and regional", a 7 September 2009 report titled "Forecast Update: optical components" and a 16 June 2009 report titled "Market trends for optical amplifiers". We paid Ovum US$18,000 for these reports. Ovum's research is based on independently audited methodologies. Ovum implements a charter of independence setting out principles of independent behavior to be adhered to by its employees, including, among other things, (1) Ovum does not endorse vendors and service providers or individual products or services, (2) Ovum's research is independent and (3) Ovum is not dependent on any single client. For full details please see www.ovum.com. Although certain data or statistics in Ovum's reports state assumptions on which they were prepared and Ovum indicated that it tracked a number of variables that shaped the assumptions such as inflation and currency exchange rates with respect to certain findings in the reports, Ovum does not include an overall statement of assumptions as a whole for the reports. Ovum expressly indicates in its reports that while every care is taken to ensure the accuracy of the information contained in the reports, the facts, estimates and opinions stated are based on information and sources which, while it believes them to be reliable, are not guaranteed. In particular, it should not be relied upon as the sole source of reference in relation to the subject matter.

- Infostone is an independent market research firm in China which we have commissioned to prepare a market research report for RMB26,500. According to the information provided by Infostone, it was established in 2001 and its services include the provision of market research reports and information related to the optical communications industry. According to Infostone, in preparing the report, Infostone obtained and reviewed data and information from its customers and other resources. Infostone also gathered and analyzed relevant financial reports and internal materials of various listed companies in our industry, including resources available from the public domain. Data was also analyzed and compared against information obtained from other market research companies, organizations or committees including but not limited to Ovum, the International Data Corporation, the Fiber-to-the-Home Council and the MIIT. Infostone further compared such analyzed data and information against the historical figures, market size and market demand of the industry retrieved from its database. In addition, Infostone also took into account the knowledge built up by its internal team of consultants for the forecast of industry development. To determine the market share in the market research report, Infostone advised us that they also considered several assumptions including, but not limited to, (i) the impact of the global economic downturn which commenced in 2008 and the potential recovery of the global economy in 2011 as forecasted by the International Monetary Fund; (ii) the adoption and execution of government policies in relation to the telecommunications industry covering Europe, the United States and Asia along with the increasing trend of global broadband usage; and (iii) the expected increase of capital expenditures in the telecommunications market as forecasted by the Telecommunications Industry Association. According to Infostone, the market share of the Group for passive optical components is calculated based on the proportion of the Group's sales revenue to the total passive components market revenue; the relevant market shares of the Group for free space optical isolators and EDFAs are calculated based on the proportion of the Group's sales volume by piece to the total market volume by piece; while the relevant market shares of the Group for WDMs and VOAs are calculated based on the proportion of the Group's sales volume by channels to the total market volume by channels. For more details on Infostone, please see www.iccsz.com/Site/EN.

OPTICAL NETWORKING INDUSTRY

Overview

Optical telecommunications and data communications networks use fiber optic cables to transfer information in the form of light signals. Light signals are transmitted through fiber optic systems and subsystems in these networks. Components within these network systems split, clean, amplify, isolate, route, or otherwise enhance light signals. The optical networking landscape consists of network operators such as AT&T in the United States and China Telecom in China, network system vendors such as Huawei and Alcatel-Lucent, and optical component, module and subsystem manufacturers, such as ourselves, which we generally refer to as fiber optic component manufacturers.

Telecommunications and data communications network operators in recent years have faced dual challenges – accommodating end-user demand for applications that require high-speed, intelligent networks, while at the same time reducing operating costs. As network operators have addressed these challenges, telecommunications and data communications networks have undergone extensive changes. In recent years, consumer demand for high-bandwidth applications, such as music and video downloads and streaming, online gaming, peer-to-peer file sharing and IPTV, has increase significantly. The increased demand for high-bandwidth applications has in turn increased network utilization across long-haul, metro and local area networks. In response, telecommunications and data communications network operators have deployed, and continue to deploy, high-speed network access technologies such as Wi-Fi, 3G, DSL, cable and FTTx. At the same time end-users are requiring high-speed, intelligent networks, discrete long-established networks for delivering voice, video and data are converging into unified IP-based networks. In addition to network operators, businesses, universities and other entities which employ data communications networks are also facing demands for high-speed, intelligent networks. As a result these entities are also investing in high-speed local area networks and storage area networks.

As telecommunications and data communications network operators address the technological challenges of providing high-speed, intelligent networks, they are also seeking to deploy these upgraded networks at the lowest possible cost. Network operators are relying on optical networking technologies to address these dual challenges and, as a result, network system vendors, such as Huawei and Alcatel-Lucent are faced with the challenge of producing optical systems capable of supporting 10G and 40G speeds while at the same time reducing costs. These technology and cost challenges are causing many network system vendors to focus on their core competencies, such as software and systems integration. As network system vendors narrow their focus, they increasingly rely upon fiber optic component manufacturers, such as us, for the design and manufacture of optical components, modules and subsystems, that can be integrated into and support high-speed, intelligent networks.

Fiber optic components in general can be classified, based on their functions, into two categories – passive components and active components. Passive components are those which only pass on a signal but do not alter the signal's basic characteristics or transmission format. Typical passive components include WDMs, isolators, attenuators, amplifiers, couplers, connectors, and optical switches. Active components are those which process a signal and change its basic characteristics or transmission format. Examples include lasers, tunable lasers, transmitters, receivers, transceivers, media converters, and transponders. Many active components contain passive components. Our products are predominantly in the passive component category, although we do produce certain active components for our customers.

According to Infostone Communication Consultant (Shenzhen) Ltd., an independent market research firm based in China[1], during the three years ended 31 December 2007, 2008 and 2009, we were one of the top five global suppliers of passive optical components with a 3.9%, 4.0% and 5.1% market share, respectively. Within specific product categories, for the year ended 31 December 2009, we were the leading global supplier of free space optical isolators for transmission applications with a 33.8% market share, and we were a top five global supplier of WDM products with a market share of 10.0%. For VOA and EDFA products, we were among the top 10 global suppliers, with a market share of 3.2% and 2.8%, respectively, for the year ended 31 December 2009. Please refer to the section headed "Competition" below for details about our competitors.

Competition

We operate in a highly competitive market and may not be able to compete successfully against current or potential competitors. Our principal competitors include the major global manufacturers of optical subsystems and components. Our principal competitors include Oclaro, Inc., JDSU Corporation, Oplink Communications, Inc., and Accelink Technologies Co., Ltd.

[1] For more information about Infostone, see the section headed "About This Section" herein.

Please see below for the market shares of the top five global suppliers of passive optical components for the year ended 31 December 2009 according to Infostone Communication Consultant (Shenzhen) Ltd., an independent market research firm based in China commissioned by us[2], and the information about these companies as obtained from publicly available information.

Company	**Location of headquarters**	**Principal business activities**	**Market shares**
			(Note)
Company A	Wuhan, PRC	Specializes in the research, development and manufacturing of passive optical components, optical instruments and integrated photo-electronic devices.	10.1%
Company B	Fremont, California, US	Engaged in designing, manufacturing and selling optical networking components and subsystems.	9.5%
Company C	Milpitas, California, US	A provider of communications test and measurement solutions and optical products for telecommunications service providers, cable operators, and network equipment manufacturers. Also a provider of optical solutions for biomedical and environmental instrumentation, semiconductor processing, aerospace and defense, brand authentication, visual display and custom color product differentiation applications.	8.6%
Company D	San Jose, California, US	A provider of optical components, modules and subsystems to the telecommunications market.	7.3%

2 For more information about Infostone, see the section headed "About This Section" herein.

Company	Location of headquarters	Principal business activities	Market shares
			(Note)
The Company	Shenzhen, PRC	A supplier to fiber optic network system vendors of optical networking subcomponents, components, modules and subsystems used in high-speed telecommunications and data communications networks.	5.1%

Note: This represents the market shares of the top five global suppliers of passive optical components for the year ended 31 December 2009 according to Infostone Communication Consultant (Shenzhen) Ltd., an independent market research firm based in China commissioned by us. Please refer to the paragraph headed "About this section" of this section for further details.

We maintain what we believe are higher profit margins than most of the other companies in our industry. Our gross profit margin for the years ended 31 December 2007, 2008 and 2009 was approximately 40.9%, 37.5% and 45.3%, respectively. According to the most recent annual reports published by our competitors that are listed companies, the gross profit margin of our competitors for their most recently completed fiscal year ranged from 22.0% to 38.0%.

Our overall competitive position depends upon a number of factors, including:

- availability, performance and reliability of our products;
- selling price;
- the quality of our manufacturing processes;
- the breadth of our product line;
- our ability to participate in the growth of emerging technologies;
- our ability to win designs through prototyping;
- the compatibility of our products with existing communications networks; and
- our manufacturing capacity and capability.

Our competitors may have substantially greater financial, engineering and manufacturing resources as well as greater name recognition and stronger customer relationships than we do. Competitors in one part of our business also may rapidly become competitors in other portions of our business. In addition, our industry has recently experienced significant consolidation, and we anticipate that further consolidation will occur. This consolidation has increased, and will likely continue to increase, competition.

Despite the above, the specific impact on particular companies of the consolidation of the telecommunications industry depends on their respective qualification status. In our case, the consolidation of the telecommunications industry has resulted in an increase of sales volume during the Track Record Period. The merger of Alcatel and Lucent and the acquisition of the optical networking and carrier Ethernet assets of Nortel by Ciena allowed us to gain business opportunities that we would not have otherwise enjoyed because we were not previously qualified by Lucent and Nortel as a supplier.

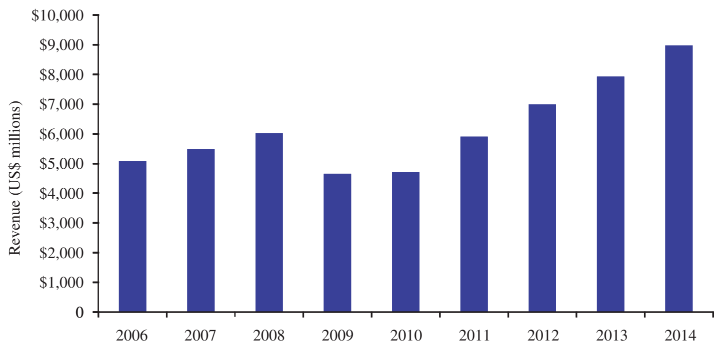
Some of our existing customers and potential customers, as well as our suppliers and potential suppliers, are also our competitors. These customers and suppliers may develop or acquire additional competitive products or technologies, which may cause them to reduce or cease their purchases from us or their supply to us, as the case may be. Further, these customers may reduce or discontinue purchasing our products if they perceive us as a competitive threat with regard to sales of products to their customers. Additionally, suppliers may reduce or discontinue selling materials to us if they perceive us as a competitive threat with regard to sales of products to their customers. As a result of these factors, we expect that the competitive pressures we face may intensify and may result in price reductions, reduced profit margins and loss of market share.

Competition in the optical subcomponent, component, module and subsystem industry has contributed to substantial price-driven competition. As a result, sales prices for some of the products we produce have decreased over time at varying rates. The rapid emergence of new technologies and the evolution of technical standards can greatly diminish the value of products relying on older technologies and standards and exacerbate price pressure. In addition, the current economic and industry environment in the telecommunications sector has resulted in pressure to reduce prices for our products, and we expect pricing pressure to continue for the foreseeable future, which may adversely affect our operating results.

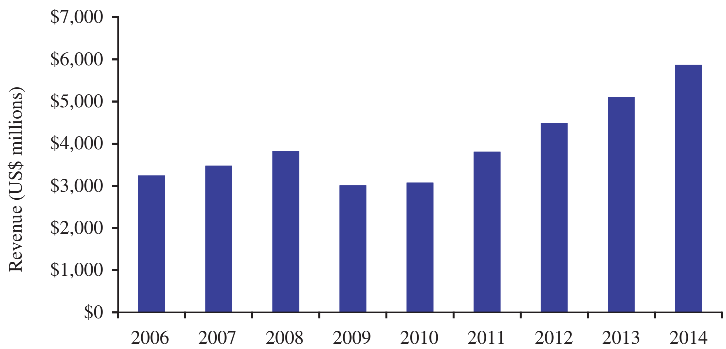
Demand Environment for Optical Components

Recent network traffic volume growth has been driven by the proliferation of enhanced voice and video applications delivered over IP networks, which has resulted in higher network utilization and the need for additional bandwidth capacity from carrier networks. According to the Forecast update: optical components report, 7 September 2009 from Ovum, from 2006 to 2008, the total demand for optical components, modules and subsystems increased from approximately US$5.0 billion in 2006 to approximately US$6.0 billion in 2008, representing a CAGR of 8.8%. Such demand is estimated on the assumption that the market is perfectly segmented and assumes revenues are generated from every component needed in the market. Taking into account vertical integration and inter-company sales, Ovum estimates that total spending was approximately US$3.2 billion in 2006 and increased to approximately US$3.8 billion in 2008, representing a CAGR of 8.6%.

Global Optical Component Manufacturers' Market Revenue



Global Optical Component Manufacturers' Merchant Market Revenue



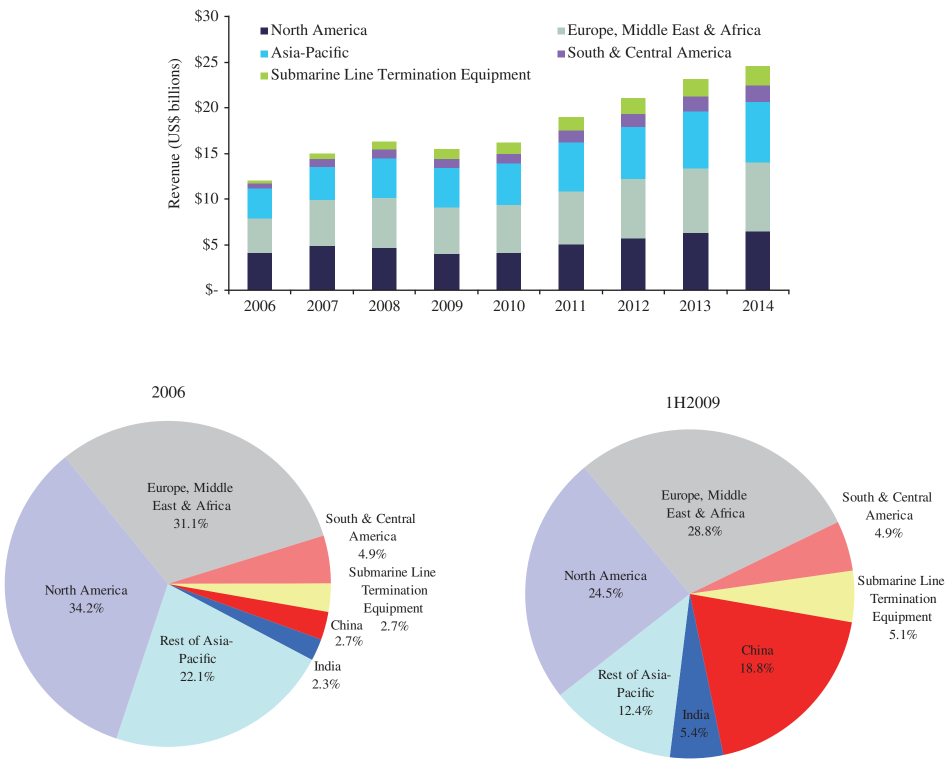
Source: Ovum

As a result of the global financial crisis of 2008-2009, the industry experienced cautious spending among network service providers as they were faced with an uncertain economic outlook. Optical component manufacturers have experienced revenue declines caused by reduced capital expenditures among telecommunications network providers, which were further amplified by the weakness of the US dollar. As a result, according to Ovum, the revenue for the global fiber optic component industry is forecast to decline by 21.3% in 2009 as compared to 2008.

However, as demand for bandwidth continues to increase and the global economy recovers, spending growth by network system vendors on fiber optic components is expected to resume in 2010 and is expected to continue to improve with a CAGR of 14.3% from 2009 to 2014, according to Ovum.

In spite of the weakness in global demand for optical components in 2009, especially in the US and Europe, the Asia-Pacific market continues to perform well and experience rising demand. According to Ovum, the Asia-Pacific market accounted for over 36.6% of global optical network system vendors' revenues in the first half of 2009, compared to 27.1% in 2006. The greater than average growth was a result of China's and India's mobile and fixed infrastructure build-outs, which together accounted for 24.2% of the global optical network system vendors' revenues share in the first two quarters of 2009, compared to 5.0% market share in 2006. In particular, China's share of global optical network system vendors' revenues increased from 2.7% in 2006 to 18.8% in the first half of 2009. Network system vendors and optical component manufacturers with greater exposure to China, and to a lesser extent India, can expect a better outlook.

Global Optical Network System Vendors' Revenue by Region



Source: Ovum

Rise of Chinese Network System Vendors

Initiatives by telecommunications network system vendors to reduce costs have resulted in a significant shift of certain manufacturing operations moving to lower-cost geographic regions, in particular to China, where the availability of low-cost engineering talent and scale manufacturing capabilities have created a network effect among companies in the sector and their suppliers. China's telecommunications network system vendors have been consistently exposed to international competition since the early 1990s. Chinese telecommunications network system vendors initially grew their market share by demonstrating their ability to offer quality telecommunications products at competitive prices and, since 2002, have benefited from the drive by telecommunications network operators to reduce costs.

Chinese telecommunications equipment network system vendors are able to tap into China's large pool of highly-skilled engineers and technical professionals, and benefit from their highly competitive electronics manufacturing supply chain. Further, Chinese network system vendors have made rapid technology advances by focusing on reliability, functionality, cost efficiency, inter-operability and scalability of their systems. An understanding of local markets has allowed Chinese network system vendors to dominate the Chinese market and they continue to benefit from China's rapid urbanization and growth in its telecommunications networks.

Chinese telecommunications network system vendors have risen to become leading companies in the field, and have become technology leaders in their own right. For example, Huawei and ZTE have grown to become leading network system vendors, estimated by Ovum to be the second and eighth largest optical network system vendors worldwide by revenues in 2008. According to Ovum, Huawei has grown its market share in the optical networking industry from 11.1% in 2006 to 17.8% in 2008, becoming the second largest optical network system vendor in the world, while ZTE has also increased its share from 2.0% in 2006 to 4.8% in 2008, ranking eighth on the worldwide list of top optical network system vendors. Both Huawei and ZTE are expected to increase their market share in 2009.

Optical Network System Vendors' Revenue 2008

Rank	Vendor	Revenues (US$ million)
1	Alcatel-Lucent	3,613
2	**Huawei**	**2,832**
3	Nortel	1,105
4	Fujitsu	1,031
5	NEC	895
6	Ericsson	855
7	Nokia Siemens	834
8	**ZTE**	**785**
9	Tellabs	730
10	Ciena	709

Source: Ovum

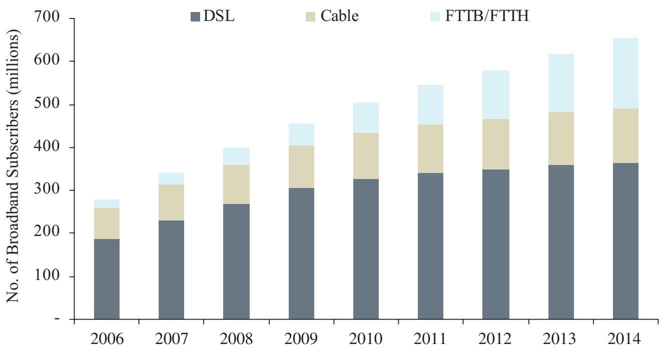
Our long and proven track record in the optical components industry in China is one of our competitive advantages because we expect to benefit from the success and rapid growth of our network system manufacturer customers. Our revenue in China, as a percentage of our total revenue, has increased from 26.8% in 2007 to 49.0% in 2009.

Key Development Trends

Increasing demand for broadband

Telecommunications network operators are continuing to upgrade their networks in order to stay competitive and increase revenues. Specifically, fixed-line and cable providers are investing in fiber optic infrastructure in order to offer higher-speed data services. This transformation has been fueled by investment in mobile and fixed infrastructure with global network operators' capital expenditures reaching US$226.1 billion in 2008, according to Ovum. The result has been a CAGR of 19.6% in fixed broadband subscribers from 279 million in 2006 to 400 million broadband subscribers in 2008. Ovum forecasts that global fixed broadband subscribers will reach over 650 million by 2014. In particular, subscriber growth of the high-bandwidth FTTx segment is expected to grow at a CAGR of 29.3% between 2009 and 2014, while mobile broadband subscriptions are expected to grow at a CAGR of 46.8% from 2009 to 2014.

Global Fixed Broadband Subscribers

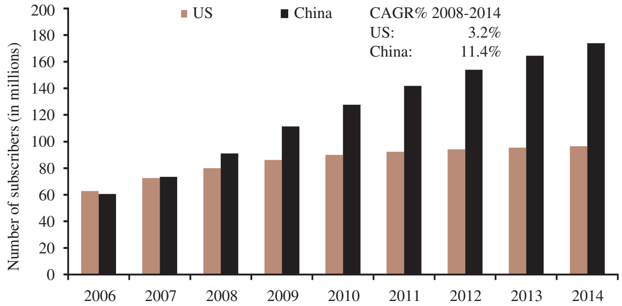


Source: Ovum

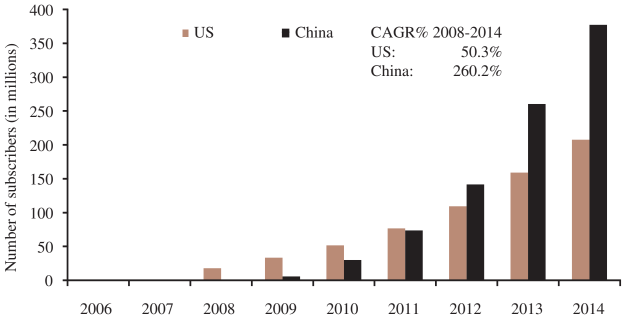
Chinese telecommunications network operators have spent a significant amount in the development of broadband infrastructure. According to MIIT, China's annual capital expenditure increased by 45.3% from RMB203.5 billion in 2003 to RMB295.4 billion in 2008, reflecting China's rapid urbanization. This high level of investment is expected to continue as service providers roll out 3G telecommunications networks beginning in early 2009. Base stations for 3G networks are expected to be connected to the telecommunications network through fiber optic lines. According to Ovum, as of the end of 2008 China had 91 million fixed broadband subscribers, which is forecast to rise to over 173 million by the end of 2014, which represents a CAGR of over 11.4%. As China's cities experience rapid urbanization, much of this broadband growth is expected to be delivered through new FTTx networks, rather than through existing copper networks.

Rising optical network spending in China is having a beneficial effect on local component manufacturers and system providers, with Chinese telecommunications system equipment vendors experiencing the largest gain in market share and becoming the major beneficiaries of China's broadband growth. According to Ovum, in 2008, China overtook the US to have the largest number of fixed broadband subscribers.

Fixed Broadband Subscribers



Mobile Broadband Subscribers



Source: Ovum

Government support for broadband

Communications infrastructure plays an increasingly important role in national development and some governments, including those in the US, certain countries in Europe and Asia-Pacific, including China, are investing in extending and upgrading high-speed access both for national development and as part of fiscal stimulus packages in response to the recent economic downturn. For example, according to information provided by the Speaker of the US House of Representatives, the US government has earmarked US$7.2 billion for extending broadband and wireless access to underserved communities across the US as part of the American Recovery and Reinvestment Act of 2009, an US$787.0 billion economic stimulus package enacted by the US Congress in February 2009. Further, the increasing importance of broadband is highlighted by the US Federal Communications Commission including affordable access to robust and reliable broadband products and services as one of six goals in its 2009-2014 Strategic Plan.

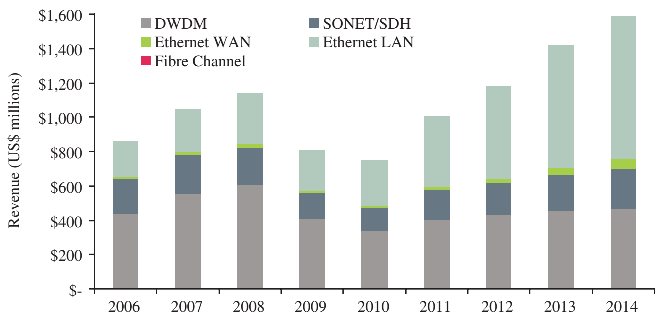
According to the Official Journal of the European Commission published on 30 September 2009, in September 2009, the European Commission adopted guidelines on the application of the EC Treaty state aid rules to the public funding of broadband networks in September 2009. The guidelines provide a clear and predictable framework for stakeholders and will help member states of the European Union to accelerate and extend broadband deployment. The guidelines also contain specific provisions concerning the deployment of next-generation access networks, allowing public support to foster investment in this strategic sector without creating undue distortions of competition. Moreover, the guidelines note that as part of the European Economic Recovery Plan adopted by the European Commission on 26 November 2008, with the aim of achieving 100% high speed Internet coverage for all European Union citizens by 2010, the European Commission decided to inject EUR1.0 billion into the European Agricultural Fund for Rural Development. Part of this amount will be used for deploying broadband infrastructure in rural areas.

The PRC Government has also implemented various measures to stimulate the information technology industry. Under China's 11th Five-Year Plan, MIIT places broadband as one of the important infrastructures to improve information technology with the goal of providing a broadband connection to over 95% of villages by the end of the fifth year in 2012.

Increased demand for higher speed transmission

As of today, 10G remains the dominant transmission rate for fiber network solutions. Among 10G fiber network components, tunable transponders are the largest segment, with a market valued at over US$1 billion in 2007 and expected to rise to over US$1.5 billion in 2014. Although 10G DWDM and Ethernet products have been available in the market for over three years, they are not yet commoditized. According to Ovum, about one million 10G Ethernet optical transceivers were shipped in 2008, a record level, with lower cost leading to more widespread adoption and further volume increases of over 80% expected in 2011 and 2012.

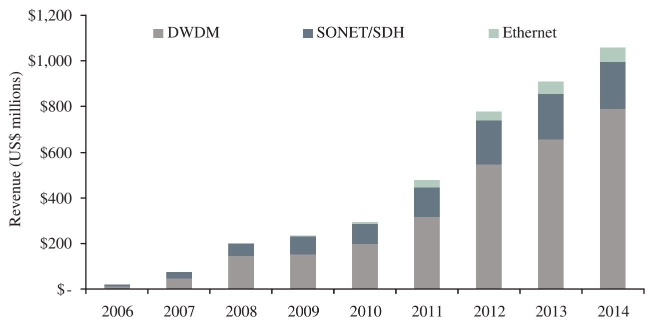
10G Interfaces Module Revenue



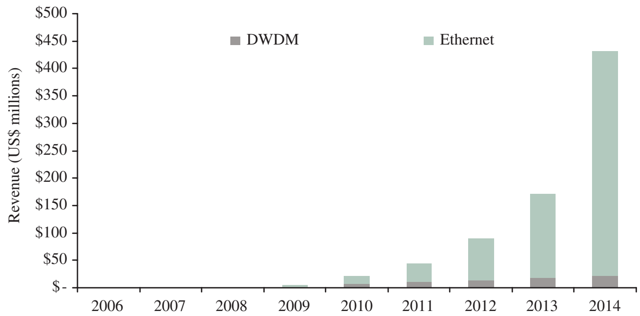
Source: Ovum

As the demand for high bandwidth and total transport capacity continues to grow, the optical communications industry's focus is expected to move from 10G to higher transmission speeds such as 40G and 100G. High-growth product segments include 40G transceivers and transponders of which DPSK or DQPSK is a key component, with revenues forecast by Ovum to rise from US$235.2 million in 2009 to over US$1 billion in 2014, as DWDM deployment migrates from long-haul networks to metro-based networks. TDC, which is a critical component of 40G systems, is expected to grow from US$14 million to US$129 million by 2014, with a CAGR of 56.3%. 100G interfaces are also expected to grow from a low base of US$4.5 million in 2009 to over US$400 million by 2014.

40G Interface Module Revenue



100G Interface Module Revenue



Source: Ovum

As the demand for IP-based services continues to increase, the need to enhance network intelligence to support diversified services is growing. Such need creates an increase in the demand for ROADMs and associated components and modules. According to Ovum, demand for ROADMs is expected to expand from US$171.7 million in 2009 to over US$390.0 million in 2014, driven by demand in metro networks from network operators for remote, software-driven, control over the network. Greater use of ROADMs requires an optical network to be sufficiently robust in order to permit rapid and constant channel changes in response to channel add/drop by the ROADMs.

Technical Challenges of Next-Generation Networks and Our Products

The cost effective deployment of high-speed intelligent and agile 40G and 100G optical networks presents a number of challenges for optical component, module and subsystem manufacturers:

Challenges of high speed transmission

To allow the cost effective upgrade from 10G networks to 40G and 100G transmission speeds, newer 40G or 100G systems should be deployable over the existing 10G DWDM systems using 10G link engineering design rules. However, higher bit-rates have less tolerance to chromatic dispersion and require higher OSNR, compared with 10G. This need for high OSNR can be addressed by using more advanced modulation formats together with tunable dispersion compensation at the receiver end. The most commonly used modulation formats for the 40G and 100G systems are DPSK or DQPSK in contrast with the OOK modulation format which is used in 10G networks. DPSK and DQPSK demodulators are able to connect optical phase modulation into a suitable format to be processed by optical receivers and are one of the key building blocks in 40G and 100G next-generation optical networks.

Other key building blocks of next generation optical networks include tunable dispersion compensators, which can dynamically compensate a wide range of channels, 40G and 100G optical modulators and demodulators with high insertion loss, which require per-channel optical amplification at both the transmitter and receiver ends, and compact EDFAs with low power consumption.

In anticipation of the increasing demand for 40G and 100G, we have developed a range of products incorporating the key enabling technologies used in 40G networks. For example, we have developed DPSK and DQPSK demodulators and compact EDFAs, and we are in the process of developing additional products such as TDC. We believe being an early mover in developing products for next generation networks will be essential to our continued success and will enable us to increase our market share.

Challenges of enhancing network intelligence

The requirement for greater intelligence and agility in optical networks presents distinct technical challenges. Agile and intelligent optical networks are characterized by the use of ROADMs and tunable transponders not only in core networks but also in metro and regional networks.

The increased use of ROADMs requires that an optical network be robust in response to channel add or drop. Intelligent optical amplifiers provide fast transient suppression when the number of channels is constantly changing, while tunable lasers with wavelength lockers provide greater network agility. Manufacturing of ROADMs for metro and regional networks typically reduce the port count to reduce cost. Among the solutions for low port count, low cost ROADMs is to use various discrete components such as tunable filters, VOAs, optical switches, and tap-PDs to build the whole module.

To ensure continual optical signal performance, intelligent networks need the ability to monitor and automatically adjust for ageing and changes in operating conditions, which can be provided by optical channel monitors and other smart modules.

We have developed many products targeted at network intelligence enhancement, including wavelength lockers, intelligent optical amplifiers, VOAs, optical switches and tap-PD monitor arrays and we are also developing additional products such as OCM to meet the needs of our customers as they build next-generation networks.

Challenges of cost-effective manufacturing

The fiber optic component industry presents a number of key challenges in manufacturing. The production processes for our products, particularly passive optical components, are heterogeneous, numerous and product-specific which we would characterize as low-volume, high-mix. The need of our customers for lower prices requires yield optimization, quality and reliability maintenance, and skillful capacity management. We believe that fiber optic component manufacturers, such as ourselves, need to either have a flexible and adaptive manufacturing system with good scalability to cope with continuously changing demand for components, or must outsource key components and subcomponents to outside contract manufacturers with the consequent reduction of profit margins.

With over 15 years' experience in the optical networking industry, we have successfully developed both manufacturing expertise and operating systems (including our FIS) that allow us to manufacture our products in-house efficiently and in a flexible way, while minimizing outsourcing to outside manufacturers. We have a vertically-integrated business model with intelligent and adaptive manufacturing processes which we believe enable us to achieve high yields and higher margins than some of our peers. Our comprehensive product portfolio makes us an appealing manufacturer to leading optical network system vendors and we have obtained approved vender status, and have completed any required pre-qualification, with 234 customers, while our vertical integration enhances our margins. See the section headed "Business – Our Strengths" in this prospectus for further details.

Our Competitive Advantage

Except as disclosed herein, please refer to the section headed "Business – Our Strengths" in this prospectus for further details about our competitive advantages.

This section sets forth a summary of the most significant laws, regulations and requirements that affect our business activities in China or our Shareholders' right to receive dividends and other distributions from us. As confirmed by the Directors and advised by our PRC legal counsel, all relevant PRC regulatory requirements to which O-Net Shenzhen, our PRC operating subsidiary, is subject and which have a material impact on it have been set forth below.

REGULATIONS ON PRIVATE AND FOREIGN INVESTMENTS

The principal regulations governing private and foreign investments in the optical networking industry in China include:

Catalogue for the Guidance of Foreign Investment Industries (1 December 2007) (外商投資產業指導目錄 (2007))

Under this catalogue, most of our products are listed in the catalogue of "encouraged industries" and some in the catalogue of "permitted industries".

INDUSTRY REGULATIONS

Guidelines of Key Areas of High Technology Industry with Development Priority (2007) (當前優先發展的高技術產業化重點領域指南 (2007年度))

According to these guidelines jointly issued by National Development and Reform Commission (中華人民共和國國家發展和改革委員會), Ministry of Science and Technology (中華人民共和國科學技術部), MOFCOM and State Intellectual Property Office (國家知識產權局) on 23 January 2007, our products fall into the key areas of high technology industry with development priority. Therefore, we are entitled to certain tax benefits or preferential tax treatments as described in more detail in the subsection titled "Tax" in this section.

Electronic Information Industry Adjustment and Revitalization Plans (電子信息產業調整和振興規劃)

The General Office of the State Council issued these plans to emphasize the adjustment and revitalization of the electronic information industry from 2009 to 2011. Further, the General Office of National Development and Reform Commission (國家發展和改革委員會辦公廳) and the General Office of MIIT (工業和信息化部辦公廳) jointly promulgated the Direction of Technological Advancement and Reform Investment for Electronic Information Industry (電子信息產業技術進步和技術改造投資方向) on 3 September 2009 which provides detailed guidance with respect to the advancement and development of the electronic information industry. Our products and technological developments have closely followed such governmental policies and guidelines.

Measures on Pollution Control of Electronic Information Products (1 March 2007) (電子信息產品污染控制管理辦法)

According to these pollution control measures, poisonous and hazardous materials contained in the electronic information products must be controlled and shall not exceed the national and industrial limits; the importers and the manufacturers must indicate on the electronic information products the environment friendly use period, the specific poisonous and hazardous materials contained in such products and the packaging materials. O-Net Shenzhen is complying with such requirements in its production.

Compulsory certification is required for products that fall into the Pollution Control Catalogue of Electronic Information Products (電子信息產品污染控制重點管理目錄), which will be issued by the Certification and Accreditation Administration of the PRC. The first draft of this catalogue has been published for public comment only and has not been officially promulgated. Until official guidelines are published, we do not know whether any of our products will be subject to compulsory certification.

INTELLECTUAL PROPERTY LAWS AND REGULATIONS

China has adopted legislation related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property (保護工業產權巴黎公約), the Madrid Agreement on the International Registration of Marks and Madrid Protocol (商標國際註冊馬德里協定), the Patent Cooperation Treaty (專利合作條約), the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights (與貿易有關的知識產權協議).

Regulations on Patents

China began reviewing patent applications and granting patents under the PRC Patent Law (中華人民共和國專利法) (as amended) in 1985. Under PRC law, invention patents are valid for twenty years and external design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the “first to file” principle. This means that when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty in order for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system.

When a patent infringement dispute arises, the parties concerned usually settle. However, if a settlement cannot be reached, parties may either file a civil law suit or an administrative complaint at a provincial or municipal office of the PRC State Intellectual Property Office (中華人民共和國國家知識產權局). At a party's request, a PRC court may issue a preliminary injunction. Damages for infringement are calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in either manner, damages may be determined by using a reasonable multiple of the license fee under a contractual license. In China, the burden of proving infringement is on the patent holder. However, in cases of alleged production process patent infringement, the alleged infringing party has the burden of proving that there has been no infringement.

Although patent rights are national rights, the Patent Cooperation Treaty to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

Regulations on Trademarks

Both the PRC Trademark Law (中華人民共和國商標法) adopted in 1982 and revised in 2001, and the Implementation Regulation of the PRC Trademark Law (中華人民共和國商標法實施條例) adopted by the State Council of the PRC in 2002 give protection to the holders of registered trademarks. The Trademark Office under the State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局商標局) handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten years. Trademark license agreements must be filed with the Trademark Office or its regional counterparts. We have registered two trademarks in China, namely our "O-Net" logo and our tradename.

ENVIRONMENTAL REGULATIONS

We are subject to a variety of PRC national and local environmental laws governing the construction, use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, the control of industrial noise and fire prevention. Our operating activities involve the use of hazardous materials and chemicals. The major environmental regulations applicable to us include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Implementation Rules of the Law of PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法實施細則), the Law of PRC on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法), Implementation Rules of the Law of PRC on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法實施細則), the Law of PRC on the Prevention and Control of Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法), and the Law of PRC on the

Prevention and Control of Noise Pollution (中華人民共和國環境噪聲污染防治法). These laws and regulations set out detailed procedures that must be implemented throughout a project's construction and operation phases.

Pursuant to the Environmental Regulations, any company or enterprise which causes environmental pollution and discharges polluting materials that endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within our business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. We must submit environmental impact assessment reports to the relevant environmental protection authorities for review and approval before construction begins. If the environmental impact assessment documents of a construction project have not been examined by the relevant environmental protection administrations or are not approved after examination, the authority in charge of examination and approval of the project shall not approve construction of the project, and the construction work unit may not commence work. We are also required to apply to the competent environmental authority and file information on the types and quantities of liquid, solid and gaseous wastes we plan to discharge, and the manner of discharge and disposal, as well as industrial noise and other related issues. If the authorities find that these types of waste and noise are within regulated levels, they will issue renewable discharge permits for a specified period of time. O-Net Shenzhen has obtained a pollution discharge permit in December 2009 for discharge of pollutants.

The PRC's environmental protection authorities continuously monitor and conduct periodic audits of our levels of environmental protection compliance. If we discharge liquid, solid and gaseous waste at levels above those permitted, we may be subject to penalties such as fines. Further, if we do not correct such activities within a specified period, PRC authorities may suspend our operations.

According to the Law of PRC on the Prevention and Control of Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法) and other relevant laws and regulations, an enterprise which produces hazardous waste should engage a company licensed by the applicable environmental protection agency to collect, store, dispose of and transfer the waste. O-Net Shenzhen has appointed a qualified company to collect and dispose hazardous waste.

O-Net Shenzhen has received confirmation from the Human Settlements and Environment Commission of Shenzhen Municipality (深圳市人居環境委員會) on 20 November 2009 that it has no material violations of environmental regulations in the last three years.

PRODUCTION SAFETY LAW

Pursuant to the requirements of the PRC Law on Production Safety (中華人民共和國安全生產法), which was promulgated by the National People's Congress on 29 June 2002 and became effective on 1 November 2002, and other relevant laws and regulations, an entity engaged in production activities is required to meet the conditions for safe production stipulated by the laws and regulations, strengthen managerial control over production safety, improve on safety precautions at the production sites, and establish or improve accountability systems with regard to safety incidents to ensure workplace safety at the production sites. To ensure our compliance with above laws and regulations. O-Net Shenzhen has adopted several production safety control systems.

TAX

The PRC taxes that are levied on our subsidiary in China mainly include enterprise income tax and value added tax, or VAT. Under PRC law, our PRC subsidiary is also required to withhold taxes on dividends payable to us.

PRC Enterprise Income Tax

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法), with effect from 1 January 2008. The EIT Law adopted a uniform tax rate of 25% for all enterprises (including FIE) and revoked the current tax exemption, reduction and preferential treatments applicable to FIE. However, there is a transition period for both domestic and foreign invested enterprises that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% before the effectiveness of the EIT Law may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law.

Under the EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises". Pursuant to the EIT Law and its implementation rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% enterprise income tax rate for their global income. According to the implementation rules of the EIT Law, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the production and business, personnel, accounting and assets of an enterprise. In our circumstance, substantially our management is currently based in China and is expected to remain in China in the future. It is not clear whether we would be deemed as "resident enterprises" or not. In addition, although the EIT Law provides that dividend income between "qualified resident enterprises" is exempted income, and the implementing rules refer to "qualified resident enterprises" as enterprises with "direct equity interest", it is not clear whether dividends we receive from our subsidiary are eligible for exemption. If we are considered a PRC "resident enterprise" and thus required to withhold income tax for any dividends we pay to our non-PRC resident investors, the amount of dividends we can pay to our shareholders could be materially reduced. In addition, any gain realized on the transfer of ordinary shares by our non-PRC resident investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within China but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. The implementation rules of the EIT Law provide that after 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be exempted or reduced by the State Council of the PRC or pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. We are a Cayman Islands holding company and our wholly-owned subsidiary, O-Net BVI, holds 100% of the equity interests in O-Net Shenzhen. Since we derive substantially all of our income from dividends we receive from our subsidiary in China, if we are deemed as "non-resident enterprises" and declare dividends from such income, it is unclear whether the income will be deemed to be sourced in China under the EIT Law.

Our PRC subsidiary, O-Net Shenzhen, has enjoyed certain preferential tax treatments during the Track Record Period and is entitled to reduction of or exemption from the 25% income tax rate generally applicable in China. According to the previous tax regulations that expired when the EIT Law took effect, O-Net Shenzhen, as a FIE with an operating term of more than ten years, was exempt from income tax for two years starting from the first year that it began to make profit, namely the two years ended 31 December 2007, and it is entitled to a 50% reduction in the income tax rate for the three years thereafter, namely 2008, 2009 and 2010. According to the EIT Law, O-Net Shenzhen has continued to enjoy such preferential tax treatments since the EIT Law took effect on 1 January 2008.

In addition, O-Net Shenzhen is a FIE located in Shenzhen, one of the Special Economic Zones of the PRC, and therefore enjoyed a preferential income tax rate of 15% before the EIT Law took effect. According to the EIT Law and the Notice on the Policy of Enforcing Transitional Preferential Treatment of Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) promulgated on 26 December 2007 by the State Council, O-Net Shenzhen is subject to an income tax rate of 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and every year thereafter unless it is also entitled to other preferential tax treatments.

Meanwhile, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It would be entitled to a concessionary income tax rate of 15%. Given that adopting the applicable transitional income tax rates and the "2-year exemption and 3-year half payment" is more preferential and beneficial to O-Net Shenzhen, the income tax rate applicable to O-Net Shenzhen is 15% for 2007, 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and every year thereafter unless it will be entitled to other tax incentives. After offsetting all unexpired losses carried forward from previous years, the "2-year exemption and 3-year half payment" tax preferential period started from 2006, which is the first profit making year of O-Net Shenzhen. According to a confirmation issued by Shenzhen Nanshan Local Tax Authority (深圳市南山區地方稅務局) dated 10 March 2010, our first year of profit making was 2006 and we started to enjoy our two years of full tax exemption in 2006. Therefore, O-Net Shenzhen was exempt from income tax in 2006 and 2007. From 2008 to 2010, O-Net Shenzhen will be entitled to a 50% reduction of the income tax. The income tax rate for 2011 is 24%, and from 2012, O-Net Shenzhen will be subject to the regular income tax rate of 25% unless O-Net Shenzhen can be qualified as a High Technology Enterprise with priority support from the state government (as O-Net Shenzhen currently is), in which event O-Net Shenzhen will be subject to a preferential tax rate of 15% under current PRC tax laws or regulations.

To encourage research and development, the State Administration of Taxation (國家稅務總局), or the SAT, promulgated a Regulation on Before-Tax Deduction of the Research and Development Expenses of the Enterprise (企業研究開發費用稅前扣除管理辦法(試行)), which became effective as at 1 January 2008. According to the regulation, enterprises engaged in projects that fall into High Technology Areas with Priority Support by the State Government (國家重點支持的高新技術領域) and the Guidelines of Key Areas of High Technology Industry with Development Priority (當前優先發展的高技術產業化重點領域指南) (2007), are entitled to a deduction of the research and development expenses before calculating the payable EIT. Our PRC subsidiary, O-Net Shenzhen, filed for this deduction for the year ended 31 December 2008 with the Local Taxation Bureau of Shenzhen Nanshan District (深圳市南山區地方稅務局) in April 2009.

As at the Latest Practicable Date, O-Net Shenzhen had an outstanding enterprise income tax of approximately RMB1.3 million for the year 2008 as result of an issue of confirmation from the Shenzhen Nanshan Local Tax Authority (深圳市南山區地方稅務局) dated 10 March 2010 stating a change in the first year of profit-making of O-Net Shenzhen. According to the Law of PRC Concerning the Administration of Tax Collection (中華人民共和國稅收徵收管理法), any enterprise not paying the enterprise income tax in the specified period is subject to a daily 0.05% surcharge unless otherwise provided. We will pay such outstanding enterprise income tax in respect to O-Net Shenzhen and we understand that it is customary for the relevant tax bureau to confirm the amount of surcharge, if any, nearer the time of payment. As at the Latest Practicable Date, we have not received any notification regarding the imposition of or demand for such tax and related surcharges (if any).

PRC VAT Tax

Pursuant to the PRC Provisional Regulation on the Value Added Tax (中華人民共和國增值稅暫行條例), or VAT, and its implementation rules, any entity or individual engaged in the sale of goods, the provision of specified services or the importation of goods in China is generally required to pay VAT on the added value derived during the process of production, sale or service provided. Depending on the category of taxable goods, the VAT rate may be 0%, 13% or 17%. Our PRC subsidiary, O-Net Shenzhen, is an ordinary taxpayer, as categorized by the taxation bureau. Our products for domestic sale in China are subject to VAT at the rate of 17%.

REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules (中華人民共和國外匯管理條例) promulgated on 29 January 1996 and amended on 1 August 2008, the Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions by complying with certain procedural requirements. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of RMB into a foreign currency, and remittance of the foreign currency outside the PRC.

Dividend Distribution

The principal regulations governing distributions of dividends of foreign holding companies include the PRC Company Law (中華人民共和國公司法) (2005), the Foreign Investment Enterprise Law (中華人民共和國外資企業法) (1986), as amended in 2000, and the Administrative Rules under the Foreign Investment Enterprise Law (中華人民共和國外資企業法實施細則) (1990), as amended in 2001.

Under these laws and regulations, foreign invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign owned enterprises in China, like our PRC subsidiary, are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

SAFE REGULATIONS ON OVERSEAS INVESTMENT OF PRC RESIDENTS AND EMPLOYEE STOCK OPTIONS

Notice 75

On 21 October 2005, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Notice 75, which became effective as at 1 November 2005. According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in China. An amendment to registration or filing with the local SAFE branch by such a PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore companies, or any other material change involving a change in the capital of the offshore company.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in China in the past are required to complete the relevant registration procedures with the local SAFE branch. Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including on increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate as well as the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

As advised by our PRC counsel, since the acquisition of our shares by the PRC resident shareholders does not constitute round trip investment, the PRC resident shareholders are not required to attend to the No. 75 registration.

Implementation Rules of the Administration Measures for Individual Foreign Exchange and Notice 78 on Share Option Scheme

On 5 January 2007, SAFE issued the Implementation Rules of the Administration Measures for Individual Foreign Exchange (個人外匯管理辦法實施細則). On 28 March 2007, the SAFE further issued the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程), or Notice 78. Under these regulations, PRC citizens who participate in an employee stock holding plan or a stock option plan of an overseas listed company are required, through a PRC domestic agent or a PRC subsidiary of the overseas listed company, to register with the SAFE and follow certain other procedures.

NEW MERGERS AND ACQUISITIONS REGULATIONS AND OVERSEAS LISTINGS

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), the State Administration for Taxation (國家稅務總局), the State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局), China Securities Regulatory Commission (中國證券監督管理委員會) (the "CSRC") and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), or the New M&A Rules, which became effective on 8 September 2006 and was amended on 22 June 2009. The New M&A Rules, among other things, includes provisions that require that an offshore special purpose vehicle, formed for the purpose of overseas listing of equity interests in PRC companies, and controlled directly or indirectly by PRC companies or individuals, must obtain the approval of the CSRC prior to listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

On 21 September 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process. The application of the new M&A Rules remains unclear.

Our PRC counsel, Global Law Office, has advised us, based on their understanding of current PRC laws and regulations as well as the procedures announced on 21 September 2006, that the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours under this prospectus are subject to this new procedure.

In spite of the above, given that (i) O-Net Shenzhen is a wholly-foreign owned enterprise since its establishment; (ii) our single largest shareholder, namely O-Net Holdings is not a PRC resident; and (iii) we are not controlled by PRC resident, we are not required to submit an application to the CSRC for its approval of the listing and trading of our ordinary shares on the HKSE.

The issuance and sale of our Shares and the listing and trading of the shares on the HKSE do not conflict with or violate this new M&A Rules.

Subject to the timing and contents of any new laws, rules and regulations or clear requirements from the CSRC in any form relating to the New M&A Rule, the legal advice of Global Law Office summarized above may need to be changed.

Pursuant to the Notice of Reinforcing the Administration of Overseas Stock Offering and Listing issued and promulgated by the State Council on June 20, 1997 (國務院關於進一步加強在境外發行股票和上市管理的通知) (the "1997 Notice"), if a foreign registered and Chinese invested Non-listing Company (as defined below) owns assets in China via an overseas entity and such ownership has lasted for at least three years, then any overseas application for a listing of such overseas entity holding assets in China, will require prior approval from the Provincial government or relevant departments of the State Council.

According to the 1997 Notice, the "Chinese invested Non-listing Company" includes non-listed company wholly owned or controlled by the PRC shareholder. In practice, an outright majority interest of more than 50% will be deemed to have "control" over the non-listed company, and according to Article 1 of the 1997 Notice, "control" by a PRC shareholder also includes a situation where a PRC shareholder is the single largest shareholder of the non-listed company.

As far as we are concerned, Shenzhen Kaifa (through Hong Kong Kaifa) neither has the "control" shareholding as referred to above in the Company nor is it the single largest shareholder of the Company upon completion of the Reorganisation. Therefore, our PRC legal counsel is of the opinion that the 1997 Notice does not apply to the Listing.

As advised by our PRC legal counsel, as part of the Reorganization process in removing O-Net Cayman from the Group, Shenzhen Kaifa or China Electronics Cooperation ("CEC") is required to file an application with MOFCOM, NDRC and Shenzhen SAFE. The obligation is that of Shenzhen Kaifa or CEC, but not the Company. Our PRC legal counsel is not aware of any legal impediment in respect of Shenzhen Kaifa's completing the procedures. From a PRC legal perspective, the Listing will not be materially affected even if the relevant PRC legal procedures for Shenzhen Kaifa's overseas investment are not duly completed.

REGULATORY COMPLIANCE

As at the Latest Practicable Date, our PRC legal counsel, Global Law Office, has advised us, and the Directors have confirmed that except as disclosed in the sections headed "Business – Properties" and "Risk Factors – Risks relating to conducting business in China – Expiration of, changes to, or our failure to qualify for current Chinese tax incentives that our business enjoys could have a material adverse effect on our results of operations" of this prospectus, the Group has in all material aspects complied with all relevant laws and regulations in the PRC necessary for conducting our business operations and O-Net Shenzhen has obtained all the relevant permits and licenses for its current operation in the PRC.

To ensure ongoing compliance with the relevant regulatory requirements, we have taken the following measures:

(i) to obtain updates on laws and regulations and international standards and to check whether or not our existing practice is in compliance with these updates and, if not, to conduct remedial measures;

(ii) to accept on the spot inspection by governmental departments and to rectify the problem immediately upon discovery of any non-compliance of regulatory requirements;

(iii) to attend regular audits required by the relevant governmental departments to maintain our different certificates;

(iv) to appoint auditors to audit our financial position and to issue audit reports;

(v) to ensure our quality control management system and environmental management system are effective, which include regular check and internal audit of such systems, and annual audit by the certifying institution; and

(vi) to improve and change our operating system upon receipt of audit results from the customers which audit us from time to time.

Pursuant to section 122 of the Hong Kong Companies Ordinance, the directors of a Hong Kong company shall cause the profit and loss account and balance sheet of the company to be made up and laid before the company and its shareholders at each of its annual general meetings.

O-Net Hong Kong, a subsidiary of the Company, did not adopt any financial statements at its first annual general meeting (“AGM”) in 2001 since the relevant financial statements were still in the process of being audited when O-Net Hong Kong convened its first AGM, and the adoption of its first financial statements was adjourned to its second AGM. The directors of O-Net Hong Kong at the time its first AGM was held were Mr. Na Qinglin and Mr. Wang Zhirong. In December 2009, O-Net Hong Kong wrote to the Hong Kong Companies Registry seeking clarification as to whether the non-presentation of the financial statements at the first AGM on the basis that the relevant financial statements were at the relevant time unavailable had amounted to a non-compliance with section 122 of the Hong Kong Companies Ordinance, and the Companies Registry confirmed that no action would be taken against the then directors of the Company in relation to such possible non-compliance.

The relevant audited financial statements of O-Net Hong Kong have been presented and approved at all of its subsequent AGMs since 2002 as per the requirements of section 122 of the Hong Kong Companies Ordinance.

CORPORATE HISTORY

We trace our origin to 2000 when Hong Kong Kaifa, a wholly-owned subsidiary of Shenzhen Kaifa, and Mandarin IT Fund I, a private equity fund established in 2000, entered into a shareholders' agreement, pursuant to which Hong Kong Kaifa and Mandarin IT Fund I agreed to inject US$14 million and US$5 million respectively to establish O-Net Cayman as a joint venture company between them. Each of Hong Kong Kaifa and Mandarin IT Fund I enjoyed the usual rights of voting, dividend and appointment of directors and was obligated to inject their respective amounts into O-Net Cayman in accordance with the terms and conditions of the shareholders' agreement.

In October 2000, O-Net Cayman set up two wholly-owned subsidiaries, O-Net Shenzhen and O-Net Hong Kong. On 18 November 2000, with a view toward developing the business of fiber optics related products, O-Net Shenzhen acquired all the assets of the fiber optics department (other than the intangible assets) of Shenzhen Kaifa in consideration of approximately RMB16.3 million which was determined among the parties by reference to the then net asset value of the fiber optics department of Shenzhen Kaifa as at 30 September 2000. On the same date, the parties further entered into a technology transfer agreement whereby Shenzhen Kaifa transferred all intangible assets in its fiber optics department to O-Net Shenzhen in consideration of RMB38 million which was determined after arms-length negotiations between O-Net Shenzhen and Shenzhen Kaifa. During that time, Shenzhen Kaifa was primarily engaged in the hard disc drive head business. O-Net Hong Kong was established to engage in logistics. It also handled part of the Group's material purchases from overseas suppliers, and conducted trading by way of buying from O-Net Shenzhen and selling to certain overseas customers. Starting from isolator design and manufacturing, we have over the years broadened the scope of our business to include the design, manufacture and sale of optical networking subcomponents, components, modules and subsystems for power management, transmission, wavelength management, signal conditioning and monitoring.

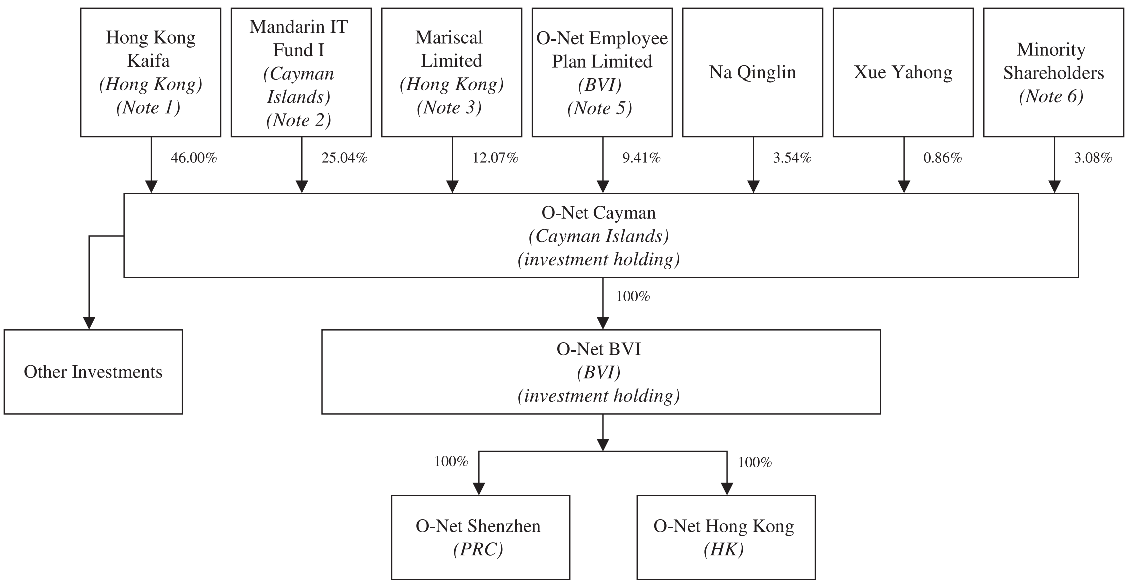
We maintain our existing capabilities across all areas of our business and, considering that most of our products require advanced product design and manufacturing techniques, we intend to enhance our capabilities to meet the constantly advancing demands of our customers, driven by continuing advances in communications network speed and complexity. Throughout our history, we have continually extended our core technology platform. For example, at our inception, we primarily focused on optical component packaging technologies and over time developed optical coating and optical precision processing technologies. We have also developed electronic hardware and firmware design, and significant manufacturing processes and know-how. In recent years we have invested significant resources into and have successfully developed next-generation technologies, including many components and modules for 40G and 100G transmission speeds and tunable network applications. As our customers' needs change, we intend to continue to evolve and extend our core technical capabilities consistent with our historical development.

Starting in late 2006, we have undertaken a series of consolidations and reorganizations. Mr. Na Qinglin, being our chairman and one of our executive Directors, established O-Net BVI in November 2006, as a dedicated holding company to consolidate our optical component business. In March 2007, Mr. Na Qinglin transferred all his equity interest in O-Net BVI to O-Net Cayman at a consideration of US$50,000 which was determined after arms-length negotiations by reference to the then net asset value of O-Net BVI (being US$50,000) as at 15 March 2007.

In 2007, O-Net BVI entered into agreements to acquire O-Net Cayman's equity interests in O-Net Shenzhen and O-Net Hong Kong as its main operating subsidiaries at a consideration of HK$24,274,424.06 which was determined based upon the total outstanding intercompany balance which O-Net Cayman owed to O-Net Shenzhen (being HK$10,375,861.26) and O-Net Hong Kong (being HK$13,898,562.80).

As our optical networking business continued to expand, we underwent various procedures in preparation for Listing, including the Reorganization, the particulars of which are set out below and in the paragraph headed "Reorganization" in Appendix VI of this prospectus. After the Reorganization, the assets and businesses not related to our optical networking business will be retained by O-Net Cayman and segregated from the Company. Please see "Excluded Business of the Company" under the section headed "Relationship with Controlling Shareholders" for details of companies retained by O-Net Cayman.

The chart below illustrates our corporate structure immediately prior to the Reorganization:



Notes:

1. Hong Kong Kaifa is wholly-owned by Shenzhen Kaifa, approximately 49.64% of which is owned by Great Wall Technology.

2. Mandarin IT Fund I is legally and beneficially owned approximately 0.00005% by Mr. Na Qinglin, approximately 0.00005% by Mr. Huang Bin and approximately 99.9999% by ten corporate shareholders, out of which approximately 37.25% is owned by HC Capital Limited, an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited with Mr. Geoffrey Yeh Meou-tsen as its controlling shareholder. Except for Mandarin Venture Partners Limited, a company owned approximately 75% by Mr. Na Qinglin, which owns approximately 2.59% of Mandarin IT Fund I and 100% of Mandarin VP (BVI) Limited, a company indirectly owned approximately 75% by Mr. Na Qinglin, the other eight corporate shareholders including HC Capital Limited and all its direct or indirect shareholders are Independent Third Parties. Mandarin IT Fund I has appointed Intertrust, an Independent Third Party, as its administrator, transfer agent and registrar, responsible for, inter alia, the arrangement for the transfer and allotment of shares in the fund, safe custody of the register of shareholders and assisting the investment manager in calculating the share price and valuation of the fund's assets. Mandarin VP (BVI) Limited has been appointed as its investment manager for providing investment supervision, management services and general administrative services to the fund. Mandarin VP (BVI) Limited has further appointed Mandarin VP (HK) Limited, which is qualified to carry out Type 4 of the regulated activities as set out in schedule 5 to the SFO, to provide it with investment advice. Each of Mandarin VP (BVI) Limited and Mandarin VP (HK) Limited is 100% owned by Mandarin Venture Partners Limited.

3. Mariscal Limited is held as to 44.44% by Mandarin IT Fund I and as to 55.55% by Mandarin Assets Limited (Note 4).

4. Mandarin Assets Limited is 100% owned by Mr. Na Qinglin.

5. O-Net Employee Plan Limited is held as to approximately 33.33% respectively by Mr. Na Qinglin, Mr. Tam Man Chi and Mr. Xue Yahong. O-Net Employee Plan Limited holds the shares of O-Net Cayman as trustees for the benefit of its directors, selected employees and consultants.

6. The other minority shareholders are Mr. Tam Man Chi, Archcom Technology, Inc. (Note 7), Mr. Li Yi, Mr. Liang Shaohua and Mr. Ke Danqun, which hold approximately 1.60%, 0.68%, 0.52%, 0.14% and 0.14% respectively of O-Net Cayman. Mr. Li Yi, Mr. Liang Shaohua and Mr. Ke Danqun are all former employees of the Company.

7. Approximately 11.03% preferred shares of Archcom Technology, Inc. are owned by Mandarin IT Fund I and approximately 5.62% preferred shares are owned by Mandarin IT Fund II (Note 8). Except as otherwise mentioned, all other issued share capital of Archcom Technology Inc. is held by Independent Third Parties.

8. Except for Mandarin VP (BVI) Limited, which owns one share of Mandarin IT Fund II, Mandarin IT Fund II is held by Independent Third Parties.

REORGANIZATION

In preparation for the Listing, we have undergone the Reorganization and as a result, our Company is a holding company for our operating companies.

Details of the Reorganization are as follows:

(a) Incorporation of our Company as an exempted company under the laws of the Cayman Islands on 12 November 2009 under the name "O-Net Communications (Group) Ltd.". At the time of its establishment, the Company had an authorized share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each and was wholly-owned by O-Net Cayman. Subsequently on 14 December 2009, the name of the Company was changed to "O-Net Communications (Group) Limited (昂納光通信(集團)有限公司)".

(b) Incorporation of O-Net Holdings under the laws of BVI on 13 January 2010 with an authority to issue up to 50,000,000 shares of US$0.001 each. At the time of its establishment, O-Net Holdings was wholly-owned by Mariscal Limited.

(c) Transfer of all the shareholding interests in O-Net BVI from O-Net Cayman to our Company in consideration of which our Company had (i) credited its one nil-paid share held by O-Net Cayman as fully paid up capital and (ii) issued an additional 9,999 new shares credited as fully-paid in favor of O-Net Cayman. After the transfer, O-Net BVI became a wholly-owned subsidiary of our Company.

(d) Mandarin IT Fund I, Mariscal Limited, O-Net Employee Plan Limited, Mr. Na Qinglin and Mr. Xue Yahong, being the direct shareholders of O-Net Cayman, transferred all their respective shares in O-Net Cayman to O-Net Holdings.

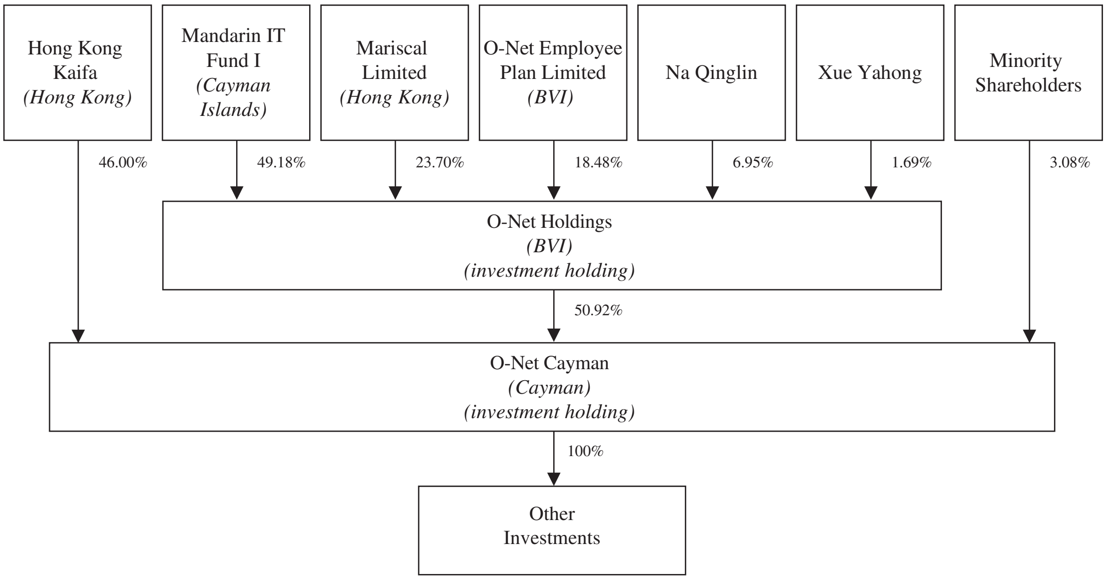
(e) In consideration of the transfer set out in (d) above, O-Net Holdings credited the one initial subscriber share held by Mariscal Limited as fully paid up, and then issued and allotted 14,761,713 shares credited as fully paid up to such shareholders, to the effect that the total 14,761,714 issued shares in O-Net Holdings were held by them in the following manner in proportion to their shareholdings in O-Net Cayman:

Name of shareholders in O-Net Holdings	**Number of shares (approximate shareholding percentage in O-Net Holdings)**
Mandarin IT Fund I	7,259,139 shares (49.18%)
Mariscal Limited	3,497,793 shares (23.70%)
O-Net Employee Plan Limited	2,728,359 shares (18.48%)
Na Qinglin	1,027,365 shares (6.95%)
Xue Yahong	249,058 shares (1.69%)

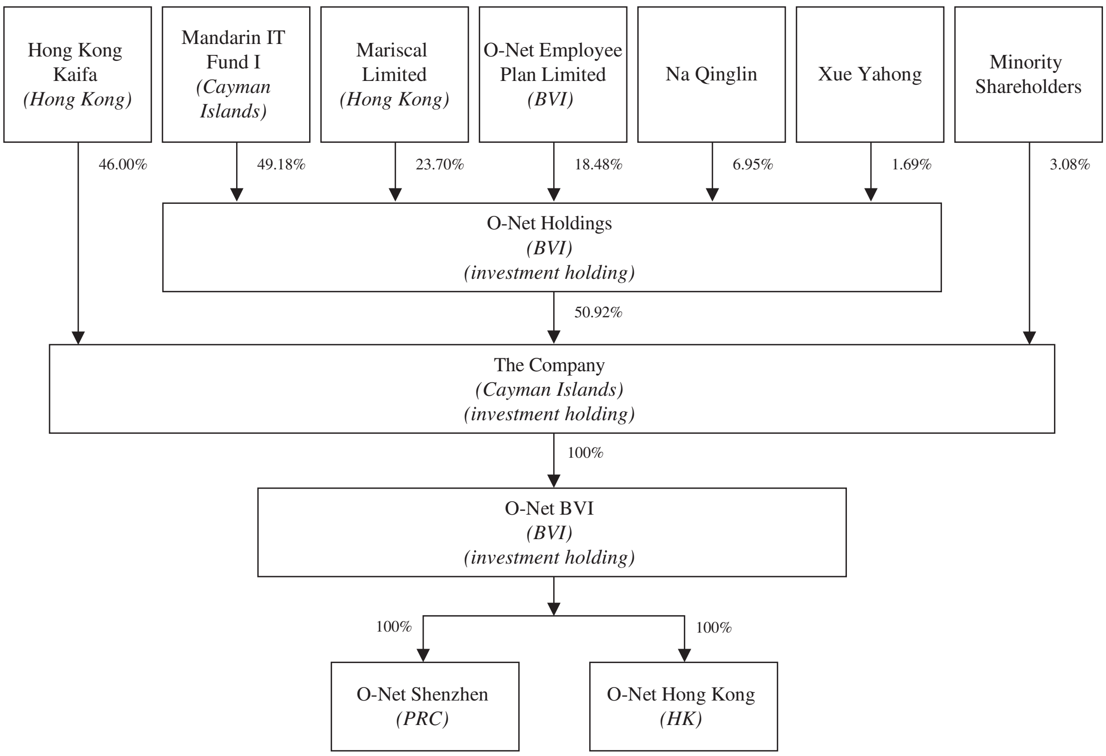
(f) O-Net Cayman effected a distribution in specie such that the existing shareholders of O-Net Cayman became direct Shareholders in proportion to their existing shareholdings in O-Net Cayman, as follows:

Name of shareholders in our Company	**Number of shares (approximate shareholding percentage in our Company)**
O-Net Holdings	5,092 shares (50.92%)
Hong Kong Kaifa	4,600 shares (46.00%)
Tam Man Chi	160 shares (1.60%)
Archcom Technology, Inc.	68 shares (0.68%)
Li Yi	52 shares (0.52%)
Liang Shaohua	14 shares (0.14%)
Ke Danqun	14 shares (0.14%)

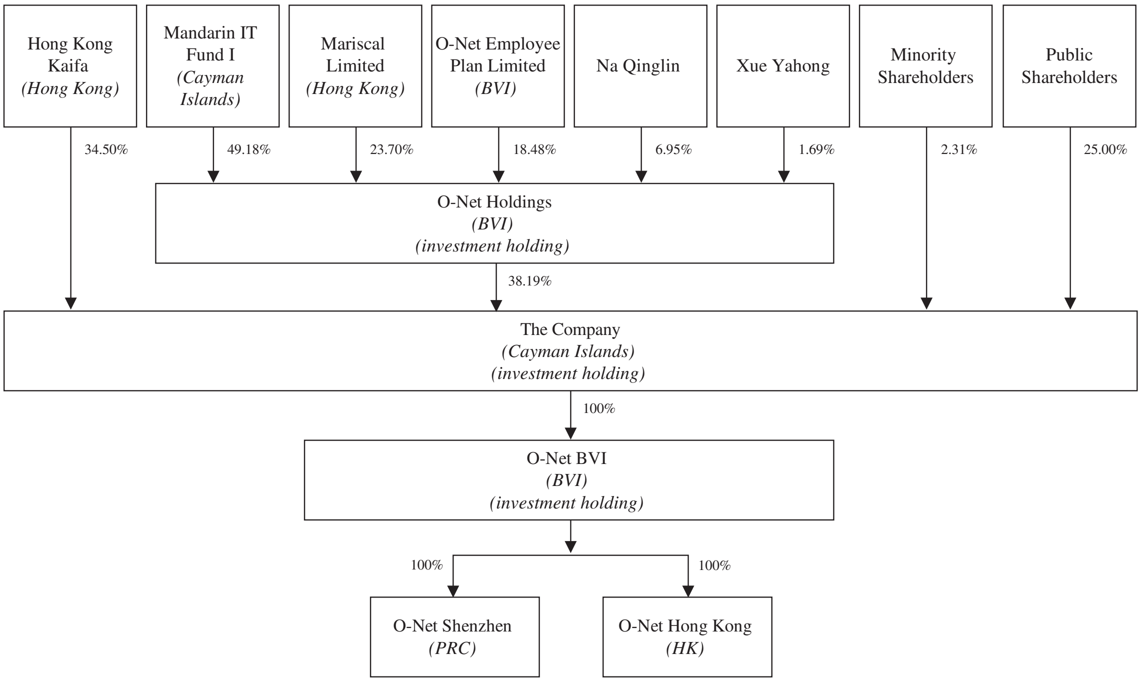
The chart below illustrates the corporate structure of O-Net Cayman immediately after completion of the Reorganization:



The chart below illustrates our corporate structure immediately after completion of the Reorganization and the Capitalization Issue, but prior to the Global Offering (assuming that the Over-allotment Option is not exercised):



The below chart represents the shareholding of our Company immediately after completion of the Reorganization, the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised):



OPTIONS GRANTED BY O-NET EMPLOYEE PLAN LIMITED TO CERTAIN EMPLOYEES

Pursuant to a trust deed (the "Old Trust Deed") entered into between O-Net Cayman and O-Net Employee Plan Limited (formerly known as Wainwright Assets Limited) in November 2000, O-Net Cayman established a discretionary trust, known as O-Net Trust, for the purposes of assisting employees (whether full-time or part-time), directors (including non-executive directors) or officers of O-Net Cayman or any of its subsidiaries or any of its consultants (collectively the "Grantees" and each a "Grantee") to acquire shares and other securities of O-Net Cayman.

Since 2002, O-Net Employee Plan Limited and O-Net Cayman had entered into option agreements with each of the Grantees (the "Old Option Agreements") for the purpose of rewarding their contributions to O-Net Cayman. Immediately prior to the Reorganization, 2,553,637 outstanding options to purchase 2,553,637 shares of O-Net Cayman, representing approximately 8.81% of the then issued share capital of O-Net Cayman, were granted by O-Net Employee Plan Limited to 66 Grantees under the O-Net Trust, by way of 95 Old Option Agreements. Pursuant to the terms of each Old Option Agreement, a Grantor obtaining an option would, upon a valid exercise of such option, receives one share in O-Net Cayman from O-Net Employee Plan Limited.

As part of the Reorganization, O-Net Cayman effected a distribution in specie such that the original shareholders of O-Net Cayman became directly or indirectly the shareholders of our Company. Subsequent to the Reorganization, O-Net Employee Plan Limited would be interested in 2,728,359 shares, representing 18.48% of O-Net Holdings and would indirectly be interested in 54,567,180 Shares, representing approximately 9.41% of the issued share capital of our Company (as enlarged by the Capitalization Issue but prior to the Global Offering).

On 9 April 2010, O-Net Holdings, O-Net Cayman and O-Net Employee Plan Limited entered into a supplemental trust deed, whereby the parties agreed, subject to the Listing, that O-Net Holdings would become a party as if O-Net Holdings was named in the Old Trust Deed as the settlor in place of O-Net Cayman and the trust property in the O-Net Trust would become the shares in O-Net Holdings held by O-Net Employee Plan Limited. On the same day, O-Net Cayman, O-Net Employee Plan Limited and each Grantee entered into a supplemental agreement ("Supplemental Option Agreement"), whereby each Grantee agreed to receive a certain number of options, which was determined by reference to the then-existing options each Grantee had received under the Old Option Agreements, and which would, upon a valid exercise of such option, become a certain number of shares in O-Net Holdings from O-Net Employee Plan Limited.

Pursuant to the above arrangement, the same 66 Grantees originally granted options under the Old Option Agreements, most of whom are employees of the Group, of which two are Directors, have a right to receive a total of 2,553,637 shares in O-Net Holdings, representing approximately 17.30% of the issued share capital of O-Net Holdings, and as such, the 66 Grantees will have an effective interest of approximately 8.81%[(1)] of the issued share capital of the Company. No single Grantee will have an effective interest of more than 1% of the issued share capital of the Company (as enlarged by the Capitalization Issue but prior to the Global Offering) upon exercise of all their options. The balance of 174,722 shares, representing approximately 1.18% of O-Net Holdings that have not been granted to the Grantees as options by O-Net Employee Plan Limited will continue to be held by O-Net Employee Plan Limited after the Listing. We understand that O-Net Employee Plan Limited currently does not have plans to grant the remaining options. There is no exercise price for the options and the right to exercise the options will expire no later than 7 October 2016, depending on the terms of the individual Supplemental Option Agreements.

Of the two Directors who were originally granted options under the Old Option Agreements, as at the Latest Practicable Date, Mr. Huang Bin had been granted 186,794 options, and has a right to receive the same number of shares in O-Net Holdings, representing approximately 1.27% of the issued share capital of O-Net Holdings and an effective interest of approximately 0.64% of the issued share capital of the Company (as enlarged by the Capitalization Issue but prior to the Global Offering and the exercise of the Over-allotment Option) upon exercise of

(1) The 8.81% is calculated by multiplying 17.30% by 50.92%, which represents the equity interests of O-Net Holdings in our Company (as enlarged by the Capitalization Issue but prior to the Global Offering and assuming that the Over-allotment Option is not exercised). Please see the first shareholding structure of our Company on page 100 of this prospectus under the section headed "Reorganization" for the related shareholding percentage of O-Net Holdings in our Company.

all his options; while Mr. Xue Yahong had been granted 140,095 options, and has the right to receive the same number of shares in O-Net Holdings, representing approximately 0.95% of the issued share capital of O-Net Holdings and an effective interest of approximately 0.48% of the issued share capital of the Company (as enlarged by the Capitalization Issue but prior to the Global Offering and the exercise of the Over-allotment Option) upon exercise of all his options.

When the options (convertible into shares of O-Net Cayman) were originally granted by O-Net Employee Plan Limited to the Grantees pursuant to the Old Option Agreements, O-Net Cayman was (and still is) a private company whose shares were not listed and before there was any specific plan to list the fiber optic business on the HKSE. There has not been any agreed rights in favor of the Grantees that the Grantees would, under the O-Net Trust, be eligible for shares which are publicly traded and listed. Pursuant to the Old Option Agreements entered into between O-Net Employee Plan Limited and each of the Grantees, the Company might grant any option convertible into shares of a listed company to the Grantees. In connection with the migration of the options to the Grantees from the conversion of shares of O-Net Cayman to the shares of O-Net Holdings, each Grantee may consider if it would be commercially beneficial to him/her/it to migrate his/her/its existing options to the new options (convertible into shares of O-Net Holdings) before entering into the Supplemental Option Agreements.

As the options held by the Grantees are options convertible into shares of O-Net Holdings instead of our Company, and the Global Offering will have no dilution effect on the Grantee's shareholding interests in O-Net Holdings, the Directors consider that the above option arrangement is not regulated by Chapter 17 of the Listing Rules.

OVERVIEW

Fiber optic components in general can be classified, based on their functions, into two categories – passive components and active components. Passive components are those which only pass on a signal but do not alter the signal's basic characteristics or transmission format. Typical passive components include WDMs, isolators, attenuators, amplifiers, couplers, connectors, and optical switches. Active components are those which process a signal and change its basic characteristics or transmission format. Examples include lasers, tunable lasers, transmitters, receivers, transceivers, media converters, and transponders. Many active components contain passive components. Our products are predominantly in the passive component category, although we do produce certain active components for our customers. According to Infostone, the global sales revenues of passive components and active components in 2009 were approximately US$0.9 billion and US$3.2 billion respectively. As such, the sales revenues of passive components in 2009 represented approximately 21.9% of the total sales revenues of the global market of fiber optic components.

We are a leading supplier of passive optical networking subcomponents, components, modules and subsystems used in high-speed telecommunications and data communications networks. We have leading market positions in several key passive optical products including free space optical isolators, WDMs, EDFAs and VOAs[(1)]. We design, manufacture and sell our products and develop with our customers solutions based upon their product needs and specifications. We have developed a business model, including proprietary technology platforms and systems, that caters to the needs of high-speed and intelligent optical networks. Apart from internally sourcing materials for our production and the use of our internally developed FIS, we conduct our sales making use of our distribution partners for sales in North America, Europe, Japan, South Korea, India and Israel and our own sales force for sales in the PRC. As a matter of our business strategy and building on our established relationship with our customers, we try, and we plan to increase our efforts, to work with customers from the earliest stages of their equipment design process to ensure that we can be their preferred choice as their supplier. By doing so, we believe that our products will be more tailored to the specific needs of our customers, which will strengthen our business relationship with our customers. In turn, we expect this will create more business opportunities for us. Our broad line of products expand optical bandwidth and redirect and amplify optical signals, as well as monitor and protect wavelength performance and assist signal transmission and reception across optical networks. Optical network system vendors use our products to increase the performance of optical networks and provide networks with flexible and scalable bandwidth to support increases of data traffic on the Internet and other public and private networks.

According to Infostone Communication Consultant (Shenzhen) Ltd., an independent market research firm based in China, during the three years ended 31 December 2007, 2008 and 2009, we were one of the top five global suppliers of passive optical components with a 3.9%, 4.0% and 5.1% market share respectively. At the specific product level, for the year ended 31

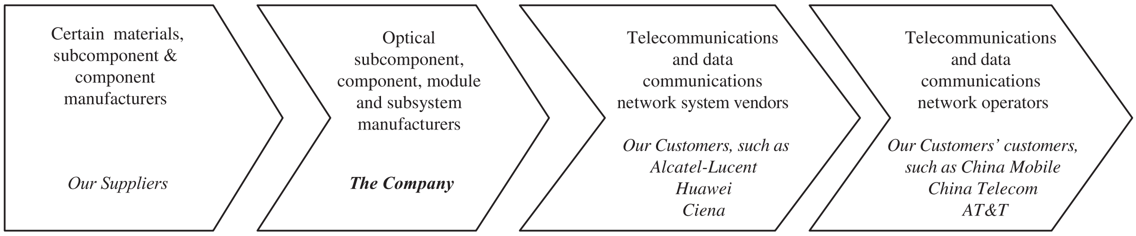
(1) Based on the market research report commissioned by us and prepared by Infostone Communication Consultant (Shenzhen) Ltd., an independent market research firm in China. For more information on Infostone, please refer to the section headed "Industry Overview – About this section". in this prospectus.

December 2007, 2008 and 2009, we were the leading global supplier of free space optical isolators for transmission applications with a market share of 33.9%, 33.4% and 33.8%, respectively, and we were a top five global supplier of WDM products with a market share of 7.7%, 7.8% and 10.0%. For VOA and EDFA products, we were among the top 10 global suppliers for the three years ended 31 December 2007, 2008 and 2009, with a market share of VOA products of 3.2%, 3.2% and 3.2%, respectively and a market share of EDFA products of 3.5%, 3.7% and 2.8%, respectively.

We believe we have accumulated strong core competencies in several technology platforms in our industry which have enabled, and will continue to enable, us to develop high performance and cost-competitive products and solutions to serve our customers. Particularly, in recent years we have launched a series of next-generation products targeted at fast-growing 40G and 100G applications such as DPSK, DQPSK and 40G EDFA, and tunable applications such as wavelength lockers, high-precision etalons and variable gain EDFAs. We are also in the process of developing advanced next-generation products which we expect to be released to the market over the course of the next year.

We are headquartered in Shenzhen, China, where we manufacture our optical subcomponents, components, modules and subsystems at our facilities. Our subsidiary in Hong Kong, O-Net Hong Kong, was established to engage in logistics. It also handles part of the Group's material purchases from overseas suppliers, and conducts trading by way of buying from O-Net Shenzhen and selling to certain overseas customers. Through internal research and development we have developed 40 series of products that we sell or integrate into our optical communications products. In addition to manufacturing individual products, we internally source many subcomponents and components for the production of our module and subsystem products. We have also internally developed our FIS which monitors the production and quality of our products. More details of how the FIS operates are set out in the section headed "Business – Production Process" of this prospectus. These processes allow us to produce technically-advanced solutions to meet our customers' needs. We do this by integrating optical, electronic and firmware design with optical precision processing and assembly, as well as passive, active and waveguide packaging, optical coating, manufacturing processing and auto-testing. We work closely with our customers during the product design and development cycle, enabling us to respond efficiently to the volume production requirements of our customers.

We believe that our broad product offering, vertically-integrated business model and emphasis on high-bandwidth products for use in 10G and newer 40G networks give us a competitive advantage. Our customers include telecommunications and data communications network system vendors located around the world and their contract manufacturers. Our principal customers include leading telecommunications system vendors, such as Alcatel-Lucent and Huawei, as well as the contract manufacturers to Ciena and Infinera. The percentage of revenue contributed by Alcatel-Lucent, Huawei and these contract manufacturers was approximately 50.2%, 46.5% and 39.8% for the years ended 31 December 2007, 2008 and 2009, respectively. These customers in turn sell systems to telecommunications and data communications service providers and cable TV operators who increasingly require higher-bandwidth networks to support advanced telecommunications and data communications applications.



For the years ended 31 December 2008 and 2009, 34.3% and 49.0%, respectively, of our revenues were from customers in China, 27.9% and 12.0%, respectively, of our revenues were from customers in North America, 27.4% and 18.0%, respectively, of our revenues were from customers in Europe, and 10.4% and 21.0%, respectively, of our revenues were from customers in Asia (excluding the PRC).

Our revenue increased 47.3%, from HK$229.7 million in 2007 to HK$338.4 million in 2009, as a result of new product launches and customer additions. During this period, our revenue from sales in the PRC increased 168.8%, from HK$61.6 million in 2007 to HK$165.7 million in 2009, primarily due to an increasing number of our customers transferring their manufacturing operations to China or outsourcing their manufacturing to partners in China, and new customer additions in China.

We experienced strong growth in 2009. Our revenue was HK$338.4 million for the year ended 31 December 2009. As a result of the global financial crisis in 2008, our customers initially reduced the orders that they placed with the Group which affected our performance in the forth quarter of 2008 and the first quarter of 2009.

OUR STRENGTHS

We believe our success is built upon a range of competitive advantages including product design, performance, reliability, cost, delivery and responsiveness. Our principal strengths, outlined below, will enable us to benefit from the growth in demand we expect for subcomponents, components, modules and subsystems for optical communication networks.

Design and manufacturing expertise in major optical technologies

Throughout our history, we have successfully designed and developed a broad range of proprietary technologies which can be categorized into five core platforms, namely optical coating, optical precision processing and assembly, optical packaging, highly-efficient and flexible manufacturing processes and FIS, and firmware and electronic design. As these areas are interrelated with one another when developing new products for optical communications networks, our proprietary technologies enable us to complete new designs with high performance specifications and achieve a fast time-to-market development cycle. We believe that by utilizing these five core platforms, we are able to respond quickly to meet the changing needs and expectations of our customers. We consider our quick responsiveness to customers to be essential to our success given that our industry is characterized by rapid technological changes. Furthermore, this broad design and manufacturing expertise helps us achieve cost-effective solutions and high product reliability. For details about our five core technology platforms, please refer to the subsection headed "Research and Development" under this section of the prospectus. In addition, our design expertise is demonstrated by our 31 patents and 29 pending patent applications in China, three PCT applications in the PRC and five pending patent applications in the United States.

Vertically-integrated business model

Our design and manufacturing expertise covers a wide range of the value chain in our industry, including subcomponents, components, modules and subsystems for optical communications networks. By internally supplying many key parts used in our products, we are able to offer our customers a competitive solution at the whole product level while maintaining what we believe are higher profit margins than most of the other companies in our industry. Our gross profit margin for the years ended 31 December 2007, 2008 and 2009 was approximately 40.9%, 37.5% and 45.3%, respectively. According to the most recent annual reports published by our competitors that are listed companies, the gross profit margin of our competitors for their most recently completed fiscal year ranged from 22.0% to 38.0%. As an example of our internal sourcing of subcomponents and components, we internally source a fiber stub used in our pigtail isolator product. By internally sourcing the fiber stub rather than purchasing it from a third party supplier, we increase our profit margin on our pigtail isolator product. In addition, in some cases we manufacture key components that are not commonly available in the industry, which provides us advantages in terms of fewer competitors, product performance and total cost structure. Please see our product map in the subsection headed "Our Products" in this section below.

Efficient and flexible manufacturing

We view our manufacturing process expertise as one of our key strengths. Unlike some of our competitors that outsource manufacturing to third parties, we generally handle all manufacturing of our products ourselves. Over the years we have accumulated a large amount of manufacturing process technologies and expertise with respect to optical packaging and assembly, including various technologies we have developed for which we have registered patents, or are in the course of applying for registration. Please refer to the section headed "Appendix VI – Statutory and General Information – B. Further information about the business – 2. Intellectual property rights" in this prospectus for details. By manufacturing products in-house, we are able to control the entire manufacturing process to ensure the products are manufactured in a timely and cost-effective manner. This is particularly important to our operations since many of the subcomponents or components that we produce are used in our other products. We utilize a customized FIS that can track our operation flow in a timely and accurate way, which enables us to successfully navigate the low-volume, high-mix nature of fiber optic component manufacturing. We have built a large engineering workforce that works closely with our research and development and production divisions to ensure we smoothly transfer the research and development of new products into volume manufacturing. Although most of the design and solutions of our products are unique and customized, the process of production and the technology involved are similar. In setting up our production lines, we place production of products that require similar production processes and technology in the same production line in a reasonable manner. This allows us to achieve volume manufacturing and higher production yields. For example, we place products that require the production process of dicing, polishing and crystaling in one line and products that require the production process of assembling, testing and ageing in another line. Our staff will act according to the instructions given by our FIS in the process of production. Please refer to the workflow diagram set out under the subsection headed "Production Process" in this section of the prospectus for details of the process involved in volume manufacturing.

Our customers demand high-quality products from their suppliers, which are required to be approved under stringent supplier qualification requirements to demonstrate the functionality, reliability and stability of their products. By manufacturing our products in-house we are able to implement quality control procedures at each point in the manufacturing process in order to manufacture products that consistently meet our customers' expectations.

We believe that our manufacturing model allows us to manufacture our products quickly and in a cost-effective manner, and that our higher production yields and our efficient work practices are a contributor to our higher profit margins as compared to the listed companies which are our competitors.

Long and proven track record in the fiber optics industry

We have been supplying network system vendors with our products for over 15 years, which includes the history of the fiber optics department of Shenzhen Kaifa, the parent of one of our joint-venture shareholders when we were incorporated in 2000. We believe that this makes us one of the earliest manufacturers specializing in optical communication network equipment. During this period, we have developed extensive expertise, business relationships and manufacturing capabilities, establishing our reputation within the industry as a highly-reliable partner for leading telecommunications network system vendors. For example, according to Infostone Communication Consultant (Shenzhen) Ltd., we are the industry leader in the manufacturing of several key passive optical products, such as free space optical isolators. We believe that our reputation helps us to retain our existing customers and obtain new ones.

Broad product portfolio

We have developed and manufacture 40 series of products, including 7,771 part numbers that we sell or integrate into our optical communications products. Given the amount of time and resources network system vendors typically need to spend with their strategic suppliers such as us, we believe customers are reducing the number of suppliers on which they rely. As such, the ability of a supplier to provide a broad range of products is one of the key criteria for being selected as a qualified supplier and, as a result, our comprehensive product portfolio makes us an appealing partner for our customers.

Solid customer base

As at 31 December 2009, we had successfully completed pre-qualification and obtained approved-vendor status with 234 customers (calculated cumulatively), many of which are leading optical network system and subsystem vendors, including Alcatel-Lucent and Huawei, as well as the contract manufacturers to Ciena and Infinera. Our significant customers typically require us to complete a lengthy and rigorous pre-qualification process. As a result, our existing solid customer base forms a significant advantage compared to suppliers that have not yet completed this process. During the pre-qualification process, customers will visit our manufacturing facility and conduct a factory audit. In addition, the other criteria used by our customers in the pre-qualification process include the ability to meet product specifications, the range of the product portfolio, the number of other parties supplying the applicable products, delivery times and pricing terms. During the years ended 31 December 2007, 2008 and 2009, we had 190, 216 and 234 customers for which we were approved and had completed any required pre-qualification process. We believe our ability to increase the number of customers that have pre-qualified us, and in particular our qualification by leading optical network system and subsystem vendors, demonstrates our competitive strength. In addition, the quality of our existing customer base demonstrates our ability to meet the expectations of large optical network system and subsystem vendors and provides assurance for future potential customers who intend to qualify us as their supplier.

China strategic advantage

Our facilities are located in Shenzhen, in the Pearl River Delta region of China, which not only gives us a low-cost manufacturing base, but also puts us in the middle of a dynamic manufacturing and development center for the optical networking industry. Unlike certain of our competitors, our research and development activities occur in the same facility as our manufacturing operations. Moreover, our location is beneficial to customer relations, as many of our customers, such as Huawei, are either located in this region or focus their sourcing here. We believe our proximity to these important customers will enable us to provide a more timely response and better service in terms of customer communication, technical support and closer collaboration than our competitors who locate all or a portion of their operations, including research and development, outside of China. In recent years, fiber optic networking demand in China has grown rapidly. For example, according to Ovum, within China, optical network system vendors' revenues increased from US$326.7 million in 2006 to approximately US$1.4 billion in 2007 and approximately US$1.8 billion in 2008. In addition, according to Ovum, for the first half of 2009 alone, optical network system vendors' revenue in China was approximately US$1.4 billion. Our revenue in China as a percentage of our total revenue has also recently increased from 26.8% in 2007 to 49.0% in 2009, a trend we expect to continue in the future. We believe our location in China will provide us with a strategic advantage as investment in, and manufacturing of, optical networks in China grows.

OUR STRATEGIES

Our goal is to be the leading supplier of fiber optic subcomponents, components, modules and subsystems to the global optical networking industry. We plan to achieve this goal by pursuing the following strategies:

Maintaining and extending our core technology platforms

Most of our products require advanced product design and manufacturing techniques. We intend to maintain our existing capabilities across all areas of our business and to further enhance our capabilities to meet the constantly advancing demands of our customers, which track the continuing advances in communications network speed and complexity. Throughout our history, we have continually extended our core technology platforms. For example, at our inception, we primarily focused on optical component packaging technologies and over time developed coating and optical precision processing technologies. We have also developed optical electronic hardware and firmware design expertise and manufacturing process expertise. We have, in recent years, focused on the development of optical technologies to increase network agility and support the higher transmission speeds of next-generation networks. As our customers' needs change, we intend to continue to evolve and extend our core technical capabilities consistent with our historical development. In addition, we will pursue opportunistic acquisitions to further expand our core technology platforms and product offerings.

Further building up our vertically-integrated business model

We have a vertically-integrated business model, focusing on subcomponents, components, modules and subsystems. In expanding our product range, customer base and overall level of sales, we plan to continue our vertically-integrated model, which we believe will help us to maintain and improve efficiencies and product reliability. For example, one of our current research and development focuses is to develop additional subcomponents utilizing our optical coating and high precision optical assembly technologies, which in turn should expedite the development of our tunable and higher-transmission speed modules and subsystems.

Enhancing and extending our product portfolio with emphasis on next-generation technologies

We have expanded our product portfolio, growing from a portfolio of approximately 5,100 products at the beginning of 2007 to 7,771 products as at 31 December 2009. Relying on our engineering team's extensive knowledge and experience, we intend to continue to enhance and extend our product portfolio to include more products in the value chain in our industry, particularly in regard to developing technologies that we believe will help distinguish us from our competitors and offer us the most attractive opportunities for growth and increased profit margin. We are currently working on a series of components and modules in the 40G, 100G and tunable product categories to cope with our customers' development plans for next-generation networks. Such products include DPSK, DQPSK, 40G EDFA, TDC and many others.

Broadening our customer base

We plan to expand our customer base by relying on our existing distribution partners and our own sales force. Please refer to the paragraph headed "Sales, Marketing and Distribution" in this section for further details. Our industry primarily serves a group of large network system vendors, each of which has substantial worldwide market share. Historically, the addition of each new strategic customer tends to have a significant impact on our revenue and operations growth. Over the years we have established a strong core customer base, and are in the process of being pre-qualified by additional significant customers in China and overseas. The pre-qualification process takes about a year, on average. Our goal is to be pre-qualified by two additional significant customers by the middle of 2010. We intend to obtain new customers by rapidly introducing top-quality component and module solutions to the market, and providing the best mix of product performance, cost and flexible delivery.

Increasing our involvement in our customers' product development cycles

In our industry, most products are designed to meet the specific needs of customers, and we expect the custom solution-driven expectation of customers to be even more pronounced in the future. Accordingly, as a matter of our business strategy and building on our established relationship with our customers, we try, and we plan to increase our efforts, to work with customers from the earliest stages of their equipment design process to ensure that we can be their preferred choice as their supplier of subcomponents, components, modules and subsystems. We have increased the number of technical exchange meetings we have with our core customers, and set up regular discussion channels between our customers and our research and development staff, including weekly conference calls with certain key customers. By doing so, we believe that our products will be more tailored to the specific needs of our customers, which will strengthen our business relationship with our customers. In turn, we expect this will create more business opportunities for us.

We believe that involvement by our research and development staff in our customers' early stage equipment design processes will have a beneficial impact for both us and our customers and further our customer relationships. Early stage involvement will allow our research and development staff to obtain a better understanding of our customers' products and, consequently, develop more compatible and efficient component solutions. Likewise, we will benefit from early involvement in our customers' design process because we will have a greater opportunity to design our components into our customers' products. Over time, we expect that earlier involvement in our customers' design processes, will result in deeper customer relationships, more efficient component design, an increased product acceptance rate and greater reliance on our products by our customers.

Continuing to optimize our manufacturing capabilities

We plan to continue to optimize our manufacturing capabilities, in terms of manufacturing efficiency and product reliability. We intend to achieve this through further improvements to our FIS, such as deploying a fully-automated production flow control system. In addition, we plan further improvements to, and continuous development of, new packaging and micro-optic processing technologies and better training of our operator task force. In addition, the new facility we plan to build in Pingshan New District, Shenzhen City, will provide us the space needed to further improve manufacturing efficiencies and to expand production capacity, if necessary.

OUR PRODUCTS

We believe we have accumulated strong core competencies in several technological platforms in our industry which have enabled, and will continue to enable, us to develop high performance and cost-competitive products and solutions to serve our customers. Particularly, in recent years we have launched a series of next-generation products targeted at fast-growing 40G and 100G applications such as DPSK, DQPSK and 40G EDFA, and tunable applications such as wavelength lockers, high-precision etalons and variable gain EDFAs. We are also in the process of developing advanced next-generation products which we expect to be released to the market over the course of the next year. We categorize our products by the function the product performs within a network, including power management, transmission, wavelength management, signal conditioning and monitoring and other products. The majority of our products are related to passive optical networking subcomponents, components, modules and subsystems, except FTTH products and cable television products (which are categorized as "Other products" below). We actively monitor customer needs as technological advances and other factors drive increases or decreases in demand for our various products. We respond to such market changes as appropriate by, for example, shifting our production focus to higher margin products.

The following table sets forth the amount and percentage of revenue by product segment during the Track Record Period.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue						
Power management	77,201	33.6	109,866	38.6	128,568	38.0
Transmission management	53,843	23.4	73,251	25.7	114,104	33.7
Wavelength management	86,156	37.5	83,474	29.3	75,786	22.4
Signal conditioning and monitoring management	5,627	2.4	6,461	2.3	6,183	1.8
Others	6,876	3.1	11,586	4.1	13,744	4.1
Total	229,703	100	284,638	100	338,385	100

Power Management Products

Power management products are used to amplify optical signals once they lose power or to reduce or otherwise adjust the power of specific optical channels as needed. We offer power attenuators, which dampen optical signal power and power amplifiers, which enhance optical signal power. We mainly design and manufacture four types of power management products, namely power attenuators, EDFAs, EDFA components and VMUX.

Power attenuators. Power attenuators are passive optical networking components that dampen signal strength at selected locations in the network without distorting the waveform of the signal. Fiber optic attenuators are used in telecommunications networks to maintain signals within the dynamic range of the optical receiver, prevent damage from high-power optical signals, regulate fluctuating power levels and regulate the output power of EDFAs. We manufacture variable optical attenuators, or VOAs, which achieve highly repeatable optical attenuation through thermally-actuated reflected vanes that intercept light. Our VOAs are compact, reliable and suitable for application over a wide temperature range and in a variety of environmental conditions.

Power amplifiers. Optical fiber power amplifiers are widely used in optical communications networks to enhance optical signal power. Optical signals typically lose power and are eventually lost after traveling a long distance along an optical fiber in long-haul networks. In access and metro networks, optical signals lose power at add/drop nodes, which are locations in a network where wavelength channels enter or exit the network. This power loss is called attenuation. Through recent advances in technology, erbium doped fiber amplifiers, or EDFAs, can amplify optical signals without relying on opto-electrical conversion, which was the case with many earlier technologies. Amplifiers are arranged along fiber cable lines at regular intervals in long-haul networks and at selected nodes in access and metro networks to enable the optical signal to reach its destination clearly. Although amplifiers range in complexity, a typical amplifier consists of a fiber and a number of fiber optic components. We offer EDFA amplification products including EDFAs and the components used in EDFAs and amplifier designs as detailed below:

- *EDFAs.* EDFAs are passive optical networking subsystems that employ gain blocks, which are the basic optical components of the amplifiers, advanced electronics, firmware and software to control the optical gain of an incoming optical signal. We offer compact industry-standard multiple supplier agreement amplifiers in both narrow-band and gain-flattening versions. Narrow-band products are used for power-gain equalization in single-channel applications, and gain-flattening products are used for power-gain equalization in WDM applications. We provide a wide range of EDFA products, from standard small-form factor gain blocks for metro applications to complete custom transient-controlled, multi-stage amplifiers serving the most technically challenging long-haul applications. We have also developed a series of EDFAs targeted at 40G optical networks and high-end variable gain EDFAs which enable more intelligent networks.

- *EDFA components.* EDFA components are passive optical components which include gain flattening filters, or GFF, tap-PD monitors and in-line isolators for the power equalization, conditioning and monitoring functions in EDFAs. Gain flattening filters are used to ensure that signals are amplified by equal amounts. Our thin-film filter technology, is a technology in which layers of thin-film separate optical signals and employs multiple layers of optical materials on glass to adjust optical output at different wavelengths. This thin-film filter technology is used to meet the requirements of high power amplifiers that are currently in development. Tap-PD monitors integrate photo detectors, or PDs, used for power monitoring functions with tapping functions into compact single-channel and array packages with high performance and reliability.

Variable multiplexers (VMUXs). VMUXs are passive optical networking modules which control several signals' intensity and multiplex them into a single mode fiber. They typically incorporate VOA arrays and OADM to achieve this function. Our VMUXs utilize internally-manufactured VOAs and OADM.

Transmission Products

Transmission products used in fiber optic networks transmit and receive optical signals. They mainly include transponders, devices that pick up and automatically respond to an incoming signal, and transceivers, devices combining a transmitter and receiver. Both transponders and transceivers incorporate an internal optical laser, a device to generate optical signals, and a photo-detector, a device to receive optical signals.

A key issue related to signal transmission in optical networks that needs to be addressed by network system vendors is interference. Numerous forms of interference can prevent the reliable transmission of optical signals. We make components for transmission products that direct and convert optical signals to alleviate these types of problems. For example, a reflected light signal can interfere with a laser's process and create noise, which can impair system performance and quality in optical networks. Our optical isolators are used in high-speed lasers and transceivers to transmit light in only one direction, thus preventing reflected light from returning to its laser source. In tunable laser and ultra-dense WDM transmitter applications, a drift of wavelength can result in crosstalk between different optical channels and impact the quality at the receiving side. Our wavelength locker is used in these products to achieve accurate wavelength control. In the emerging and fast-growing area of 40G and 100G network applications, we are among the handful of companies that have successfully introduced new products, such as DPSK demodulators and DQPSK demodulators, to the market.

We mainly design and manufacture five types of transmission products, namely optical isolators, wavelength lockers, DPSK demodulators, DQPSK demodulators, and polarization beam combiners.

Optical isolators. Isolators are passive optical subcomponents that transmit light in only one direction, thus preventing a reflected light signal from returning to its laser source. Reflected light can interfere with a laser's process and create signal noise, or interference, which can impair system performance in optical networks. Our optical isolators are extremely reliable over high and low temperatures and comply with EU environmental standards, specifically the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS). Optical isolators have been in production by us, and our predecessor, Shenzhen Kaifa, for the past 15 years.

Wavelength lockers. Wavelength lockers are passive optical components that control signal wavelength to ensure that signals do not interfere with those traveling on an adjacent wavelength. Our wavelength lockers stabilize wavelengths of lasers used in tunable or ultra-density WDM transmission systems, which require a high degree of precision.

Optical differential phase shift-keying (DPSK) demodulators. Optical differential phase shift-keying, or DPSK demodulators, a passive optical networking component, allow the optical phase difference between adjacent bits to carry information. To directly detect a DPSK signal, conventional intensity detectors require DPSK demodulators to convert phase-coded signals into intensity-coded signals. This conversion supports data transmission rates of 10G to 40G. Our DPSK modulators offer high receiver sensitivity, high tolerance to major non-linear effects in highspeed transmissions and high tolerance to coherent crosstalk.

Differential quaternary phase-shift keying (DQPSK) demodulators. DQPSK, passive optical networking components, are the four-level version of DPSK demodulators. DQPSK demodulators use a narrower optical spectrum, which tolerates more dispersion, allowing for stronger optical filtering and enables closer channel-spacing. As a result, DQPSK is the only modulation format that allows processing of 40G data-rate and above signals in a transmission system and requires only half the bandwidth bit-rate. Our DQPSK demodulators improve signal quality and performance to meet the expanding demand for higher data rates and more complex transmission formats.

Polarization beam combiners (PBCs). PBCs, passive optical networking component, are recently-developed products currently being introduced to the market. PBCs are three-port light wave components based on the characteristics of material birefringence or polarization film. The typical configuration uses two polarization-maintenance fibers for the input and a single mode fiber for the output. Our PBCs can be used for combining two input polarization signals in 40G and 100G transmission systems.

Wavelength Management Products

Wavelength management products allow more data to be transmitted over a fiber. These products include multiplexing devices, which consolidate optical signals traveling over different wavelengths. We mainly design and manufacture three categories of wavelength division multiplexers, or WDMs, namely, thin-filter WDMs, optical add/drop modules or OADMs and interleavers.

Thin-film WDMs. Thin-film WDMs simultaneously transmit signals on multiple wavelengths over a single fiber, rather than just one wavelength, as was done in older technologies; this use of multiple wavelengths increases bandwidth. At one end of the fiber, a multiplexing device consolidates optical signals traveling over different wavelengths and transmits them over a single fiber. At the other end of the fiber, the optical signal is demultiplexed, or separated, much like a prism separates different colors of light from a single source. In this way, thin-film WDMs manage bandwidth and expand capacity of existing fiber optic structures. We provide a broad range of thin-film WDM products for long-haul, metro and access applications.

- *Dense Wavelength Division Multiplexers (DWDMs).* DWDMs, passive optical networking components, are reliable, scalable, protocol-independent bandwidth creation devices. DWDMs combine two or more wavelengths for transmission over a single fiber, through multiplexing, and separate these wavelengths at the receiving end, through demultiplexing. Our DWDM module and subsystem solutions are derived from thin-film filters.

- *Coarse Wavelength Division Multiplexers (CWDMs).* CWDMs, are passive optical networking components, are cost-effective bandwidth creation devices that are typically used in access, cable TV and metro networks. CWDMs are integrated optical module are or subsystem are that combine two or more wavelengths, at a channel spacing that is many times wider than standard DWDM channel spacing for multiplexing or demultiplexing.

Optical Add/Drop Modules (OADMs). OADMs are passive optical networking modules used in wavelength division multiplexing systems for multiplexing and routing different channels of light into or out of a single mode fiber. Our OADM solution adopts thin-film filter technologies with flexibility of channel arrangement.

Interleavers. Interleavers are passive optical components which double the number of channels per fiber by interleaving two multiplexed signals. For example, an interleaver can combine two sets of 100GHz spacing DWDM signals whose offset is 50GHz to create a single set of DWDM signals with 50GHz spacing. This process can be repeated, creating even denser composite signals with 25GHz or 12.5GHz spacing. Our interleavers multiplex and demultiplex wavelengths in groups to create higher bandwidth application and narrower channel spacing.

Signal Conditioning and Monitoring Products

Signal conditioning products are used in optical networking products along with DWDM multiplexers and demultiplexers, optical amplifiers and optical add/drop multiplexers to provide optimized signal performance and quality for long distance or high-speed transmission. Signal monitoring products are widely used in DWDM channel performance monitoring, optical network switching/protection monitoring, reconfigurable optical add/drop multiplexing and gain/attenuation monitoring of amplifier systems. The ability to monitor wavelengths within an optical network enables service providers to maintain quality of service even in the event of an interruption in the signal path, such as a cut in the fiber. We design and manufacture tunable dispersion compensation products for signal conditioning and integrated tap-PD monitors and OCM/OPM modules for signal monitoring. We mainly design and manufacture three types of signal conditioning and monitoring products, namely tap-PD arrays, TDC devices and modules and OCM modules.

Tap-PD monitor arrays. Tap-PD monitors are passive optical networking modules which convert optical signals into electrical signals for network signal power monitoring. Tap-PD monitors integrate tap couplers, devices that split light off from a single path, and third-party supplied photo detectors, devices that receive light signals in optical networks and convert them into electrical signals. Tap-PD monitors allow communications service providers to monitor whether or not optical signals are being transmitted properly through the network. Our Tap-PD monitors can be used in single channel devices or array module form factors for single channel or multi-channel power monitoring.

Tunable dispersion compensation (TDC) devices and modules. Signal dispersion limits the distance an optical signal travels and adds to network cost. A dispersion compensator is a passive optical networking module that reduces the negative effect of different wavelengths reaching their destinations in an irregular fashion. We are developing flexible tunable dispersion management solutions for advanced high-speed optical transmission networks, such as 40G and 100G networks. These devices and modules will utilize our advanced technology, which provides high resolution, continuous chromatic dispersion tuning for any channel with reliable optical performance.

Optical channel monitors (OCMs). Optical channel monitors, or OCMs, also known as optical performance monitors, or OPMs, are passive optical networking modules that measure critical information data on optical transmission signals in DWDM networks to monitor signal dynamics, determine system functionality, identify performance changes and provide feedback for controlling network elements to optimize operational performance. Our OCM modules are currently in development.

Other Products

Other products that we design and manufacture include fiber to the home products, cable television products and subcomponent products.

Fiber to the home (FTTH) products. FTTH applications are products that bring high-bandwidth signals closer to end-users. FTTH networks use a passive optical network, or PON, architecture that requires a combination of high performance (gigabit per second) and high bandwidth utilization, providing low system-costs and low levels of signal interference. We are expanding our portfolio in this growing market and provide a full range of FTTH products, including optical diplexers and triplexers based on patented optical bench technology, which integrates photodetectors and laser chips on a ceramic bench, and PON WDM filters and power splitters, which are widely used in FTTH networks in Asia and North America.

Cable television products. Cable television systems are evolving from television retransmission networks to WDM bi-directional systems that support a variety of services, including broadcast television retransmission, video-on-demand and high-speed Internet access via cable modems. We offer a line of integrated components and equipment specifically for cable television, including transmitters, receivers, cable television EDFAs and media converters.

Subcomponent products. Our subcomponents include various parts for light collimating and connecting. We provide various types of thin-film filters for WDM, amplification and signal-conditioning applications. Our subcomponent products reflect our capabilities in optical precision assembly, including crystal dicing and lapping, optical grinding and polishing, optical contacts, and optical coating, which includes evaporation, ion assistant deposition and ion beam sputtering. In addition, we manufacture and occasionally sell various types of glass products, such as etalons and prisms, which are basic materials for different types of optical networking products. Our automated coating machines and experienced engineers and operators further contribute to our subcomponent product capabilities.

Selling Price and Specifications of Our Major Products

As disclosed in the subsection headed "Overview" of this section of the prospectus, our major products include (i) free space optical isolators; (ii) WDM products; (iii) VOA products and (iv) EDFA products. The average price for the year ended 31 December 2009 and the main specification of our major products are set forth below:

(i) Free Space Isolator

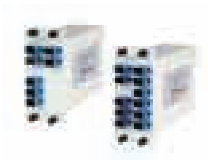
Average price: US$12.35

Specifications

Parameter		Specification		Unit
Center Wavelength (λ_c)		1310/1550 or CWDM wavelength		nm
Single/Dual Stage		Single Stage	Dual Stage	
Isolation	Min	35 (Typ 40)	55 (Typ 60)	dB
Insertion Loss	Max	0.3 (Typ 0.18)	0.5 (Typ 0.3)	dB
Clear Aperture	Typ	ø0.9	ø0.9	mm
Maximum Power Handling		300		mW

Note: All values tested at λ_c & 23°C.

(ii) WDM Products


Average price: US$167.51

Specifications

Parameter		Specification				Unit
Channel Center Wavelength		C/L band, ITU-T grid				nm
Channel Spacing		0.8 (100GHz)		1.6 (200GHz)		nm
Channel Clear Passband		ITU ± 0.11		ITU ± 0.25		nm
Number of Channels		8	16	8	16	
Insertion Loss	Max	3.0	4.0	3.0	4.0	dB
Passband Ripple	Max	0.5	0.5	0.5	0.5	dB
Adjacent Channel Isolation	Min	28	28	30	30	dB
Non-adjacent Channel Isolation	Min	40	40	40	40	dB
Return Loss	Min	45	45	45	45	dB
Directivity	Min	45	45	45	45	dB
Polarization Dependent Loss	Max	0.15	0.2	0.15	0.2	dB
Polarization Mode Dispersion	Max	0.1	0.1	0.1	0.1	ps
Operating Temperature Range		0~+70				°C
Storage Temperature Range		-40~+85				°C
Maximum Power Handling		300				mW
Package Dimension (L*W*H)		110*90*12				mm

Note: All values referenced without connector.

Available in LGX and 19'' rack mount package.

(iii) VOA Products

Average price: US$272.55

Specifications

Parameter			**Specification**	**Unit**
Operating Wavelength Range			C-band: 1525~1575 L-band: 1570~1610	nm
Attenuation Range			25	dB
Insertion Loss (BOL)		Max	0.8	dB
Insertion Loss (EOL)		Max	1.0	dB
Tuning Speed		Max	20	ms
Wavelength Dependent	0~10dB attenuation	Max	0.3	dB
Flatness	10~20dB attenuation	Max	0.6	dB
Temperature Dependent	at IL	Max	±0.3	dB
Attenuation	at 10dB	Max	±0.5	dB
	at 20dB	Max	±0.7	dB
Polarization Dependent	0~10dB attenuation	Max	0.1	dB
Loss	10~20dB attenuation	Max	0.2	dB
Return Loss		Min	45	dB
Repeatability		Max	0.1	dB
Optical Power Handling		Max	24	dBm
Power Consumption		Max	150	mW
Drive Voltage		Max	6	V
Operating Temperature Range			0~+70	°C
Storage Temperature Range			-40~+85	°C
Package Dimension (L*W*H)			21*7.4*5.5	mm

Note: All values referenced without connector.

(iv) EDFA Products

Average price: US$2,800.23

Main Specifications

Parameter		Specification	Unit
Operating Wavelength		1529~1564	nm
Input Power		-28~+7	dBm
Output Power	Max	+23	dBm
Gain		6~25	dB
Gain Accuracy		-0.5~+0.5	dB
Gain Flatness (Peak to Peak)	Max	1.0	dB
Noise Figure[1]	Max	6.5	dB
Input/Output Return Loss	Min	40	dB
PDG	Max	0.5	dB
PMD	Max	0.5	ps
Transient Suppression Time[2]	Max	1000	μs
Transient Over/Shot[2]	Max	2	dB
Transient Offset[2]	Max	0.5	dB
Operating Temperature Range		-5~+65	°C
Storage Temperature Range		-25~+75	°C
Package Dimension (L*W*H)[3]		200*130*15	mm

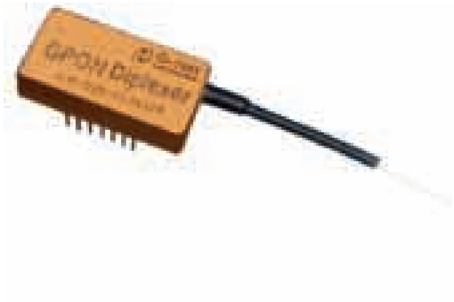
1. Max gain & max output power.

2. 15dB add/drop.

3. Without heatsink.

Set out below are the average prices for the year ended 31 December 2009 and the main specification of our FTTH products and cable television products:

(i) FTTH Products



Average price: US$90.30

Specifications (Example: GPON Triplexer with DFB laser & APD FSAN G.985.4 compliant)

Transmitter Characteristics

Parameter		**Specification**	**Unit**
Center Wavelength (CW)		1310	nm
Operating Wavelength Range		20	nm
Data Transmitter Speed		1.25	Gbps
Optical Output Power (CW, If=Ith+20mA)		0.5~5 (Typ 3)	dBm
Side Mode Suppression Ratio (CW, If=Ith+20mA)	Min	30	dB
Spectral Width (CW, If=Ith+20mA)	Typ	0.32	nm
Threshold Current (at 25°C, CW)	Max	30 (Typ 10)	mA
MPD Current (VrP=5V, If=Ith+20mA)		0.1~1.5	mA
Tracking Error (over -40°C~+85°C)		-1.5~+1.5	dB

Digital Receiver Characteristics

Parameter		**Specification**	**Unit**
Center Wavelength (CW)		1490	nm
Operating Wavelength Range		10	nm
Data Receiver Speed		2.5	Gbps
Sensitivity (BER 10^{-10})	Max	-28 (Typ -30)	dBm
Capacitance (C)	Max	0.5 (Typ 0.4)	pF
Breakdown Voltage (Vb)		40~60 (Typ 50)	V

Analog Receiver Characteristics (Only for Triplexer)

Parameter		Specification	Unit
Center Wavelength (CW)		1555	nm
Operating Wavelength Range		5	nm
Dark Current	Max	10	nA
Bandwidth (3dB)	Typ	2000	MHz
Responsivity	Min	0.85 (Typ 0.95)	A/W
IMD2	Min	-70	dBc
IMD3	Min	-80	dBc

Optical Characteristics

Parameter		Specification	Unit
Isolation, 1550 Video to 1490 Rx (only for Triplexer)	Min	40	dB
Isolation, 1490 data to 1550 Rx (only for Triplexer)	Min	40	dB
Isolation, 1550 Video to 1310 Tx (only for Triplexer)	Min	40	dB
Isolation, 1490 data to 1310 Tx	Min	40	dB
Crosstalk, 1310 Tx to 1550 Rx (only for Triplexer)	Max	-47	dB
Crosstalk, 1310 Tx to 1490 Rx	Max	-47	dB
Digital Rx 1480-1500nm band pass filter isolation[1]	<1450 and >1530	20	dB
	<1441 and >1539	35	dB
VRx 1550-1560nm Band pass filter isolation[1] (only for Triplexer)	<1530 and >1574	30	dB
Optical Return Loss @1490nm	Max	-20	dB
Optical Return Loss @1550nm (only for Triplexer)	Max	-30	dB

1. Only for FSAN G985.4 compliant component.

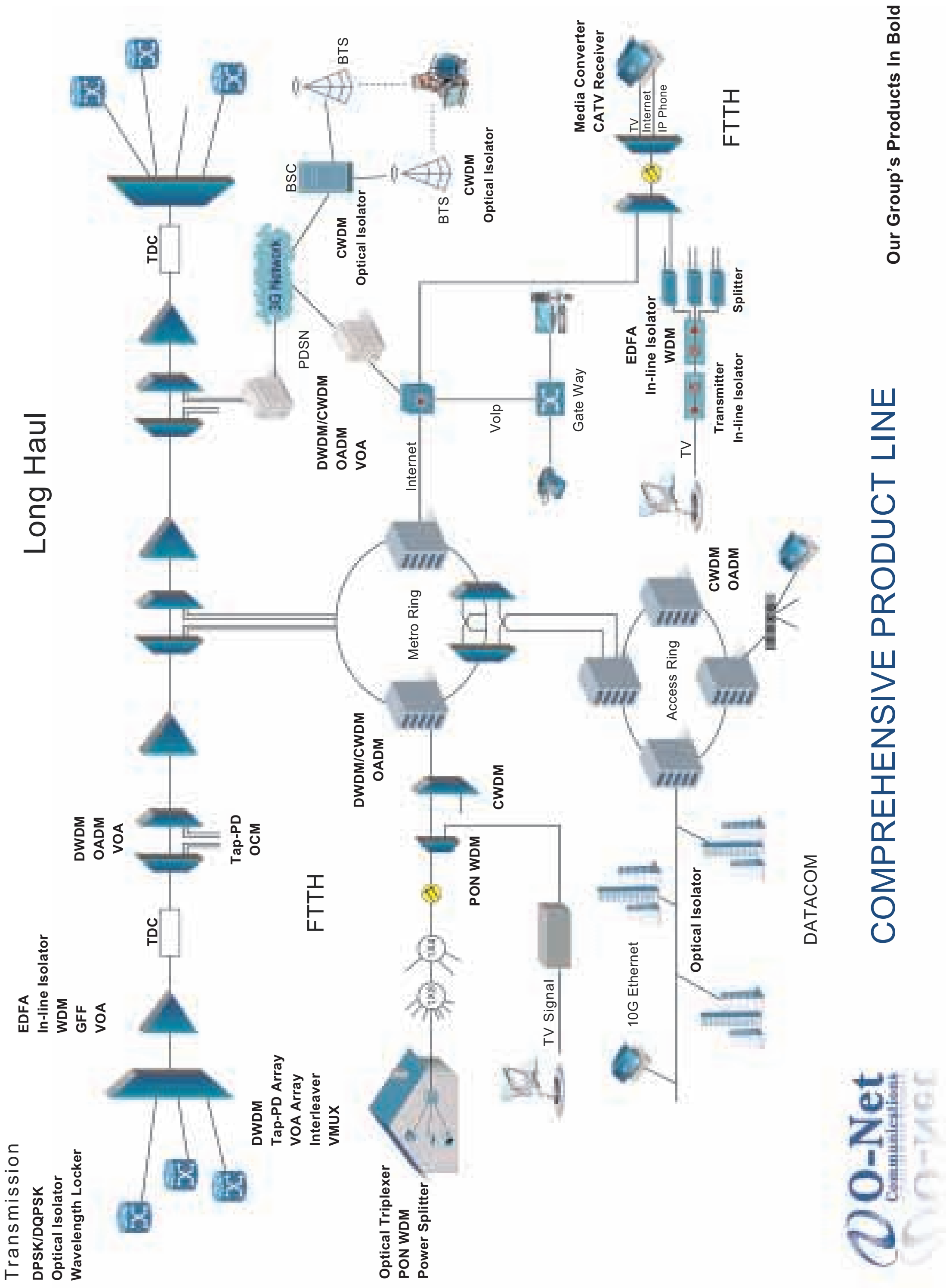
Other Specifications

Parameter		Specification	Unit
Fiber Pigtail Type		SMF-28 or equivalent, 900m or 250m	
Package Dimension (L*W*H)		22.5*17*5.6	Mm

(ii) Cable Television Products

Average price: US$738.15

Parameters	**Unit**	**Value**	**Note**
		Optical parameters	
Wavelength	nm	1310 ± 20	
Optical power	mW	⩾4	
Fiber connector		FC/APC	
Return loss	dB	⩾60	
		RF parameters	
Operating bandwidth	MHz	45~750	Receiving at -1 dBm
Input level	dBuV	65~85	
Band flatness	dB	⩽ ± 0.75	
Input impendence	Ω	75	
Return loss	dB	⩾16	
Connector type		F Type	
RF Monitor Point	dB	-20 ± 1.5	Relative to RF input
		Optical Line Performance	
CNR	dB	⩾53	Testing with
C/CSO	dB	⩾60	O-Net OR98,
C/CTB	dB	⩾65	receiving at -1dBm
		Environmental requirements	
Operating Temperature	°C	0~50	
Storage Temperature	°C	-25~55	
Relative Humidity	%	< 85	
		Others	
User Interface		Red LED Alarm	Output power problem Power supply problem
Power Supply	VAC	85~265	50Hz
Power consumption	W	<30	
Dimension		482.6mm x 369.5mm x 43.6mm	


Transmission
DPSK/DQPSK
Optical Isolator
Wavelength Locker
EDFA
In-line Isolator
WDM
GFF
VOA
TDC
DWDM
OADM
VOA
Tap-PD
OCM
Long Haul
TDC
DWDM
Tap-PD Array
VOA Array
Interleaver
VMUX
Optical Triplexer
PON WDM
Power Splitter
FTTH
PON WDM
CWDM
DWDM/CWDM
OADM
Metro Ring
DWDM/CWDM
OADM
VOA
Internet
PDSN
3G Network
CWDM
Optical Isolator
BSC
BTS
BTS
CWDM
Optical Isolator
VoIp
Gate Way
TV
Transmitter
In-line Isolator
EDFA
In-line Isolator
WDM
Splitter
Media Converter
CATV Receiver
TV
Internet
IP Phone
FTTH
Access Ring
CWDM
OADM
TV Signal
10G Ethernet
Optical Isolator
DATACOM
COMPREHENSIVE PRODUCT LINE
Our Group's Products In Bold
O-Net
Communications

The following table includes a list of our major products and the functions that they perform.

Product	Function
Power Management Products	
Power Attenuators	a device (including VOAs) designed to attenuate an intensity or power level of an input optical beam in a controlled manner to produce an output optical beam with different attenuated intensities.
Power Amplifiers	
– EDFAs	an optical device that is used to boost the intensity of optical signals being carried through a fiber optic communications system.
– EDFA components	the optical components used in EDFAs.
VMUXs	a device that controls several signals' intensity and multiplexes them into a single mode fiber (SMF).
Transmission Products	
Optical isolators	an optical component which allows the transmission of light in only one direction.
Wavelength lockers	a device used to ensure optical signal wavelength accuracy and stability for DWDM.
DPSKs	a digital modulation scheme that conveys data by changing, or modulating, the phase of a reference signal (the carrier wave).
DQPSKs	a digital modulation scheme that conveys data by using four different values of the phase of a reference signal (the carrier wave).
PBCs	a three-port light wave component based on the characteristics of material birefringence or polarization film.
Wavelength Management Products	
Thin-film WDMs	
– DWDMs	a device that enables ultra high-speed transfer of information on long-distance networks through multiplexing of several wavelengths in a single optical fiber.
– CWDMs	a device that combines multiple signals on laser beams at various wavelengths, usually spaced 20 nanometers (nm) apart.
OADMs	a device that is used in wavelength-division multiplexing systems for multiplexing and routing different channels of light into or out of a single mode fiber (SMF).
Interleavers	a three-port passive fiber-optic device that is used to combine two sets of dense wavelength-division multiplexing (DWDM) channels (odd and even channels) into a composite signal stream in an interleaving way.
Signal Conditioning and Monitoring Products	
Tap-PD monitor arrays	a device that taps several optical signals by a specific ratio and convert them to electrical signals for monitoring.
TDC devices and modules	a module that reduces the negative effect of different wavelengths reaching their destinations in an irregular fashion.
OCM/OPM modules	a device that measures channel power, wavelength, and optical signal-to-noise ratio for each channel.
Other Products	
FTTH	
Optical Diplexers	a device that implements frequency domain multiplexing.
Optical Triplexers	a form of a multiplexer consisting of one input and three outputs.
PON WDM filter	a device that multiplexes signals at different wavelengths in Passive Optical Network.
Power Splitters	refers to a device that equally splits the input signal into multiple fibers.
Cable Television	
Transmitters	a device that transmits analog or digital signals.
Receivers	a device that receives analog or digital signals.
Cable television EDFAs	an optical device that is used to boost the intensity of optical signals being carried through cable television systems.
Media Converters	Convert Ethernet optical-electronic signals between 10/100M UTP interface (TX) and 100M Fiber interface (FX).
Subcomponent products	
Fiber pigtail and collimators	devices that convert a divergent output laser beam from a fiber or waveguide into an expanding beam of parallel light.
Etalon	an optical apparatus that is typically made of a transparent plate with two reflecting surfaces, or two parallel highly reflective mirrors.
Beam splitters	a crucial part of most interferometers that splits a beam in two.
Thin-film filters (not sold directly to customers)	a very accurate color filter used to selectively pass light of a small range of colors while reflecting other colors.
Connectors (not sold directly to customers)	a device used to connect different fiber-optic devices and equipment.
Jumpers (not sold directly to customers)	a length of optical fiber cable with two connectors.

PRODUCTION

Production Facilities and Capacity

We currently manufacture all of our products at our manufacturing facilities in Shenzhen, China. Our facilities maintain complete in-house manufacturing capabilities, including component and module design, integration, production and testing. Our principal facility, located in the High Tech Park Plant in Shenzhen, China, has approximately 6,553 square meters and is used to produce and manufacture all of our products.

Due to the diversity of our products and the customer-specific nature of certain of our products, and given that there is no common production bottleneck and the sections in our production lines can be modified to suit variable production demands, we find it difficult to give a meaningful estimate of our total production capacity by way of units. Instead, we keep track of the capacity and utilization rate of our production processes and products on an individual basis and have established our production processes such that we are able to manufacture products as necessary to fill customers' purchase orders. The following table shows the production volumes* and the indicative utilization rates of the more commonly adopted production processes during the Track Record Period calculated based on the formula described below.

	For the years ended 31 December					
	2007		**2008**		**2009**	
Production Processes	*volume*	*utilization*	*volume*	*utilization*	*volume*	*utilization*
Coating	2,079,792	90.9%	2,177,700	91.5%	3,798,600	97.4%
Bonding	710,010	88.2%	755,650	88.9%	1,389,100	95.8%
Crystal Processing	22,000	88.0%	27,001	87.1%	31,605	90.3%
Dicing	1,679,260	89.8%	1,869,600	91.2%	2,700,000	90.0%
Assembling	1,114,619	94.7%	1,227,786	94.3%	1,850,550	94.9%
Aging	1,189,476	89.3%	1,352,995	89.9%	2,122,900	92.3%
Testing	1,105,524	96.3%	1,247,745	96.5%	2,027,450	98.9%
Sealing	–	–	17,490	79.5%	133,068	85.3%
Profiling	–	–	17,500	87.5%	102,000	85.0%
Package	1,056,210	95.0%	1,214,840	96.8%	1,863,900	98.1%

Note: The indicative utilization rate is calculated based on a formula, the numerator adopted represents the actual number of products that were manufactured by utilizing the indicated production processes and volume which is sold to our customers. The denominator adopted represents the capacity which is the maximum number of products that we were capable of manufacturing by utilizing the indicated production processes, which number is projected based on the actual number of products sold in the prior year and the rolling monthly forecast of our customers' purchase orders and assuming consecutive operations for eighteen hours a day and twenty-six days a month without taking into account any non-consecutive operations. The utilization rates of sealing and profiling were not applicable for 2007 because these two production lines were purchased in the year 2008.

* Number of units that have actually gone through such production process.

As shown in the above table, the indicative utilization rates of most of the more commonly adopted production processes for the year ended 31 December 2009 are more than 90%. To meet the increasing production demand and further expand our business, we plan to build a substantially larger facility. In 2007, we purchased approximately 38,000 square meters of land in Pingshan New District, Shenzhen City, China, on which we are planning to construct a new facility. We expect to use a portion of that land to construct an 80,000 square meter multi-story facility for our operations and another portion of that land to construct an 18,000 square meter dormitory for our workers. We expect the first phase of the facility will be completed around 31 March 2011. We intend to consolidate all of our manufacturing and other operations at the new facility. After the construction of the planned facility is completed, we expect to transfer our existing operations to the new facility and set up additional production lines and other auxiliary operations at the new facility in stages over a three year period. Upon consummation of such transfer and expansion processes, we expect that the total production capacity at the new facility will be approximately five times our existing production capacity. Our Directors believe that the expansion plan and the related increase in production capacity will enable us to meet the growing demand for our products in the future. Our senior management team has estimated the required increase in production capacity based on the estimated sales growth in the following five years in light of various factors including, but not limited to, our historical revenue and the demand forecast of 2010 received from our customers and the assumption that the demand for our products and the industry in which we operate will continue to grow at a steady pace. Based on the foregoing, our senior management team has estimated that our production capacity needs to be increased gradually every year and reach approximately five times our existing production capacity by 2014 in order to meet the growing production demands. As mentioned above, we expect that it will take three years to complete the expansion plan and, as a result, the increase in our production capacity will only occur in phases and be expected to be in line with the gradual increase in the future demand of our products as estimated by our senior management team. We believe our plan to construct the new facility will give us the flexibility to expand our business in the future. The following schedule sets forth our expansion plans at the new facility:

Existing Plant

Phase	Expected completion time of relocation *(Note)*	Plant	Facilities	Square meters occupied	Capacity*(Note)*	Personnel	Production line	Volume[5]
First Phase	March 2011	Current Plant (to be transferred in the First Phase)	Production-related facilities	7,200	1	1,550	18	1,822,000
			Other supporting facilities[1]	6,100	–	–	–	–
			Grand Total	**13,300**	**1**	**1,550**	**18**	**1,822,000**

Note: We expect our current plant to cease production upon completion of our relocation with the same production capacity to be relocated to the new facility. For indicative purpose only, we assume our existing capacity to be 1.

New Plant

Phase	Expected completion time	Plant	Facilities	Square meters occupied	Capacity	Personnel	Production line	Volume[5]
First Phase	March 2011	1st New Plant	Production-related facilities	4,560	0.67	1,000	12	1,214,667
			Other supporting facilities[1]	3,500	–	–	–	–
			Sub-total	**8,060**	**0.67[2]**	**1,000**	**12**	**1,214,667**
Second Phase	March 2012	2nd New Plant	Production-related facilities	14,400	2	2,100	36	3,644,000
			Other supporting facilities[1]	8,000	–	–	–	–
			Sub-total	**22,400**	**2[3]**	**2,100**	**36**	**3,644,000**
Third Phase	March 2013	3rd New Plant	Production-related facilities	21,600	3	2,900	54	5,466,000
			Other supporting facilities[1]	14,000	–	–	–	–
			Sub-total	**35,600**	**3[4]**	**2,900**	**54**	**5,466,000**
			Grand Total – excluding existing capacity	**66,060**	**5.67**	**6,000**	**102**	**10,324,667**
			Grand Total – including existing capacity upon relocation to new facility	**79,360**	**6.67**	**7,550**	**120**	**12,146,667**

Notes:

1. "Other supporting facilities" refer to the set up of research and development facilities, office space, laboratory and all equipment, such as air-conditioning and the air-exchange room, air-source and power source and exchange room station, water source location, machine room, machine maintenance room, train room, resting room for operators and all auxiliary equipment for specific rooms (such as clean room and temperature control room).

2. Upon completion of the First Phase and after relocating our existing plant to the new plant, for indicative purpose only, we expect our accumulated capacity upon completion of the First Phase will be 1.67 (which represents the capacity of our existing plant and the expected capacity of our new plant in the First Phase) during the period from March 2011 to March 2012.

3. Upon completion of the Second Phase, for indicative purpose only, we expect our accumulated capacity will be 3.67 (which represents the capacity of our existing plant and the expected capacity of our new plant in the First Phase and the Second Phase) during the period from March 2012 to March 2013.

4. Upon completion of the Third Phase, for indicative purpose only, we expect our accumulated capacity will be 6.67 (which represents the capacity of our existing plant and the expected capacity of our new plant in the First Phase, Second Phase and Third Phase) after March 2013.

5. For the year ended 31 December 2009, we produced 1,822,000 products by operating 18 production lines. The indicative volume of production for the new plants is calculated based on the ratio of the volume of products produced to the current number of production line we have for the year ended 31 December 2009.

Assuming the construction of the new facility will be completed around 31 March 2011, it is expected that the first phase, second phase and third phase of the expansion plan will be completed on 31 March 2011, 31 March 2012, and 31 March 2013, respectively.

Our expansion plan requires increases in personnel and production and ancillary equipment. Our business is very labor-intensive, and from time to time we have experienced difficulty in recruiting and retaining assembly workers as competition for such workers in recent years has increased in the Pearl River Delta region of China. These types of difficulties may become more significant in light of our planned expansion. In order to provide for the recruitment of additional staff for our expansion, we plan:

(1) to broaden our channel of recruitment by considering recommendations of candidates from staff and institutes and by way of the Internet;

(2) to maintain a good relationship with tertiary and vocational institutes and to provide them with resources such as equipment and information to recruit students possessing the relevant skill for employment by us in the future; and

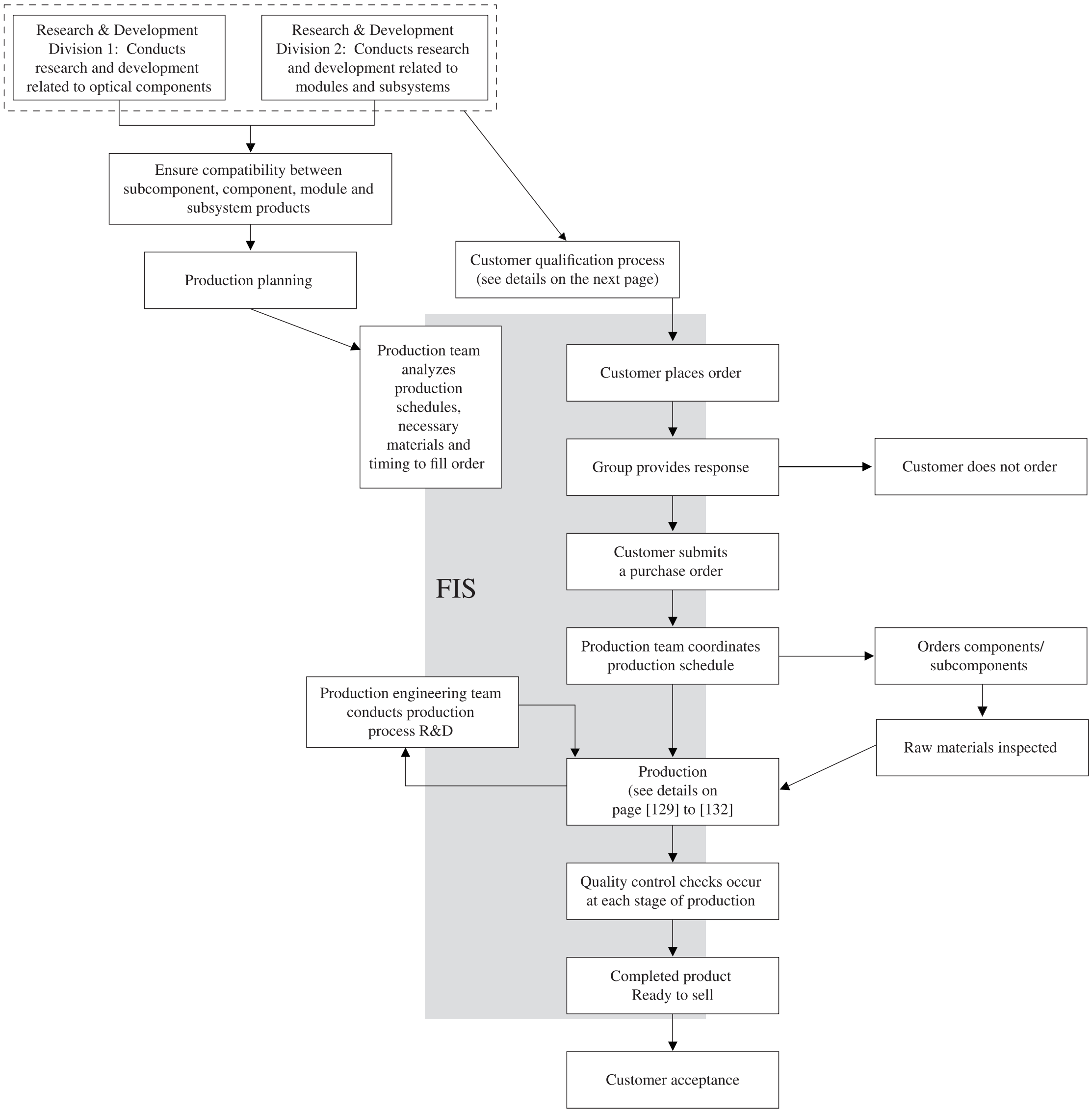
(3) to increase compensation payable to key technical staff and to consider promotions and salary increases if our staff passes our internal assessment to increase the incentive of our current staff to stay with us and to attract more candidates to join us.

Our operations are also dependent on electricity. With the development of the Chinese economy, demand for electricity has increased, particularly in the Pearl River Delta Region of China where we operate. There have been shortages of electricity supply in various regions across China, especially during peak seasons, such as summer. Electricity outages have disrupted and in the future could disrupt our coating and other manufacturing processes. We have experienced various power outages during the Track Record Period. Most of the power outages we experienced in 2007 were communicated to us in advance and occurred about once a week during the peak season, each power outage lasting approximately ten hours. In 2008 and 2009, we only experienced unscheduled power outages, most of which lasted a few minutes except in one instance a power outage lasted approximately four hours due to a breakdown of the power line that serviced our production facilities. Although more regular disruptions have not occurred recently, such disruptions could occur in the future and could disrupt our normal operations and affect our profitability.

With respect to scheduled power outages, we were able to compensate for the lost production time by either reallocating the production hours to Sundays or arranging over-time production by our workers. The Directors have confirmed that such power outages did not have any material adverse effect on our operations during the Track Record Period.

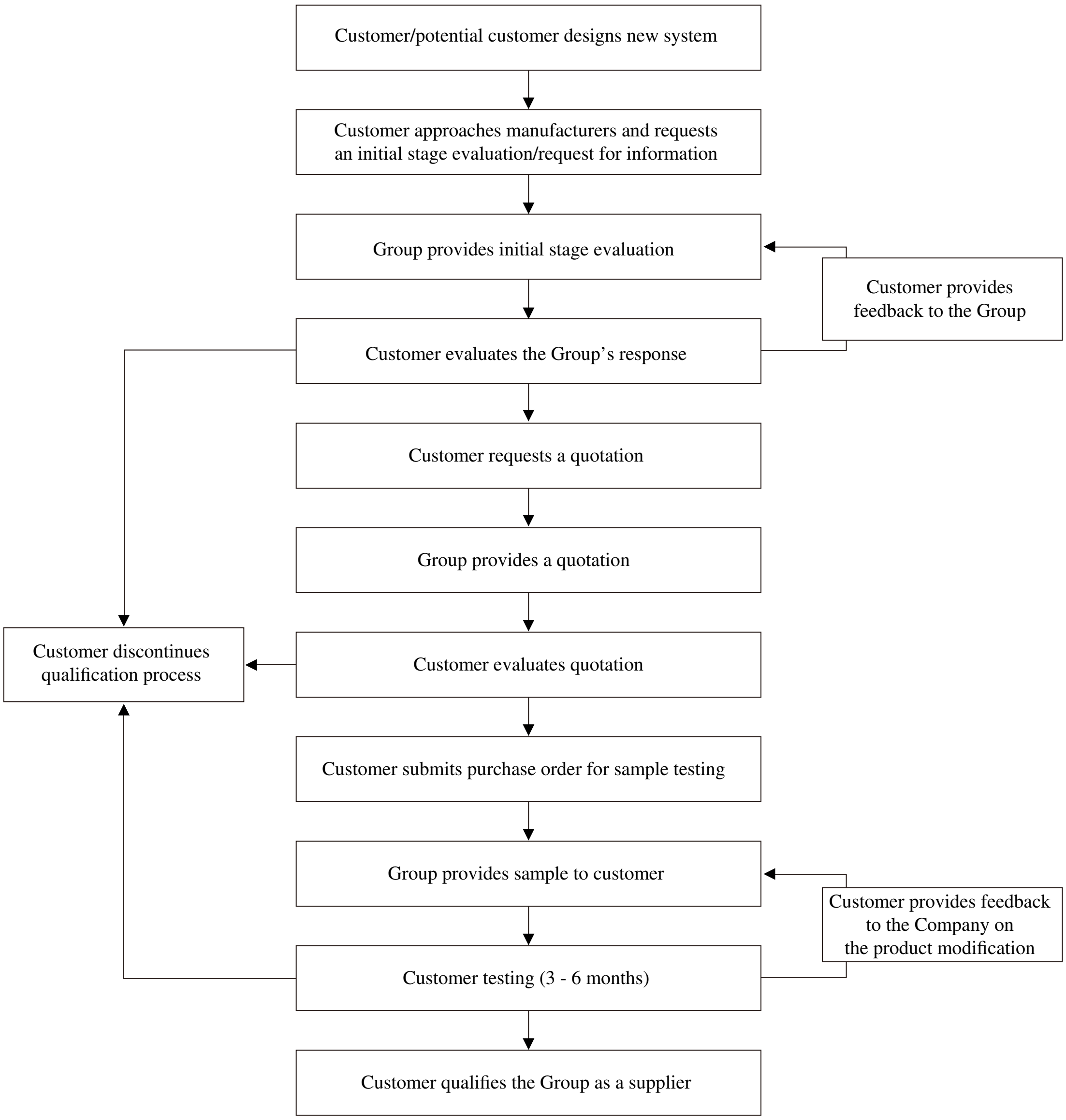
PRODUCTION PROCESS

Set out below is a diagram that depicts our operation flow including, without limitation, the time and resources involved in our customer qualification process, research and development, sourcing of materials, synchronization in the production stages, quality control and customers' acceptance.



Note: The time required for the conduct of research and development varies depending on each individual product and we cannot generalized the time required for conducting research and development. For more information about the time frame in general from the first point of contact from our customer to product delivery, please refer to the diagram headed "Customer Qualification Process" in this section of this prospectus.

Customer Qualification Process



Note: The above process applies both to new customers and new products for existing customers. Generally, it takes an average of one year for the Group to be qualified as a supplier by a new customer and about nine months to qualify products.

We have 40 series of products, which include 7,771 part numbers as at 31 December 2009 that we sell or integrate into our optical communications products. We manufacture most of our products to meet specific customer orders and our production team works closely with our research and development team to deliver products that satisfy our customers' specific needs.

In normal circumstances, customers inform us of their product needs about four to seven weeks in advance by notifying us of their volume and delivery requirements and, in some cases, price expectations. After we provide a response, our customers will decide if that response meets their expectations. If our response is acceptable, the customer will then submit a purchase order. During this information, delivery and order process, our production team analyzes the production schedule of each product from each customer in terms of production process involved, materials, quality requirements and timing. The team then coordinates the production schedule for each product with a view to optimizing our overall production efficiency. This includes placing orders for component materials and arranging production flow. Actual production will commence upon receipt of customers' orders, which are normally placed three to six weeks ahead of the required delivery time.

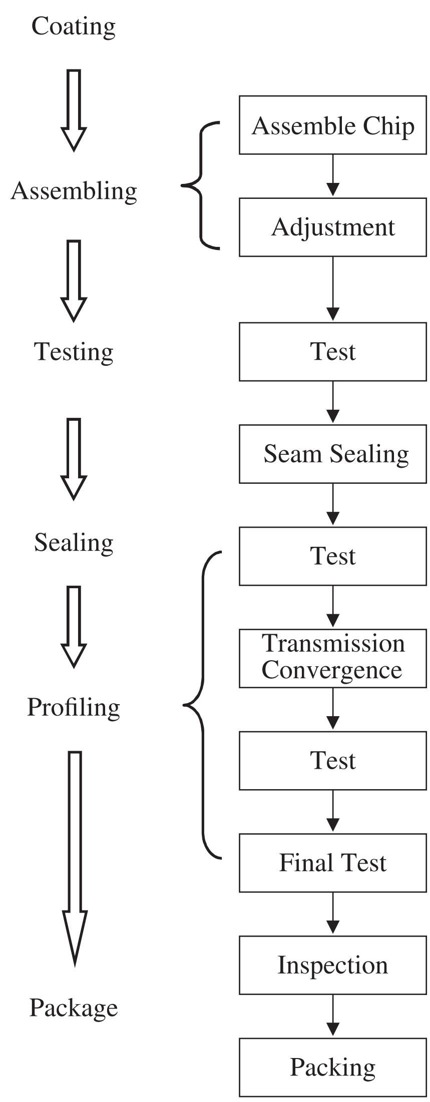
We believe we have an efficient and cost-effective manufacturing process. We generally plan our production schedule based on our customers' monthly rolling forecasts. Our customized FIS aids us in developing an effective production schedule. The FIS is a system we developed internally which monitors the production and quality of our products. The FIS allows us to manage data in an electronic and systematic way. Our FIS records and tracks various kinds of data in the production process, including the staff who are involved in the process and data about raw materials used so that we are in a position to trace which personnel were involved in the production and the kind and type of raw materials used in the production of any particular product we manufacture. Each product that we produce is assigned a serial number (which is bar-coded) from the very beginning of the production process so that the entire production process of each product can be monitored and traced. Parameters such as the type of raw materials and how they are to be used in each production process will be entered in our FIS for our staff to follow. Computers are installed in the workstations which are all connected to our FIS and our staff will record data in our FIS when they have completed the tasks required in the production process. Parameters relating to quality control are also entered into our FIS. Products which fail the quality control test do not continue in the production process. The latest version of the FIS, FIS 2.0, was completed in 2008. Its main functions include, but are not limited to, the administration and management of facilities, plans, materials, manufacturing capacity, quality control, inventory planning and management and product replacement. By reference to specific products and estimates of the required time of manufacture, we then decide if additional production capacity is required and, if necessary, take steps to increase capacity, which may include recruitment of additional employees, adding or increasing production shifts, expanding production lines and adding new leased space.

In the course of production, our production engineering team conducts production process research and development on a regular basis for continuous improvement of our manufacturing processes. The production engineering team collaborates with the research and development department on a regular basis. As at 31 December 2009, the production engineering team consisted of 239 persons, 135 of whom received tertiary education and 29 of whom hold master degrees; and an average of 3.85 years of experience in the industry. The production engineering team analyzes production tasks and develops new production processes.

We consider our efficient and flexible manufacturing to be one of our strengths. We plan to continue to invest resources in manufacturing management, engineering and quality control. We also plan to continue to develop automated manufacturing systems to provide higher throughput, improve our yields and reduce our manufacturing costs. In addition, we plan to construct new facilities in Pingshan New District, Shenzhen City, which we believe will give us the flexibility to increase our production capacity.

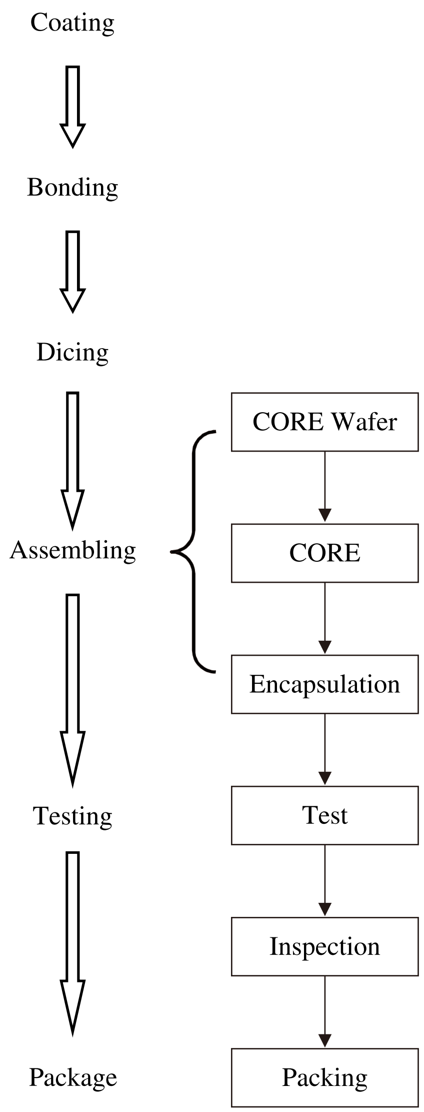
The workflow diagrams set forth below depict examples of the production process for a typical product in each of our product segments:

Power Management Products
VOA Flowchart



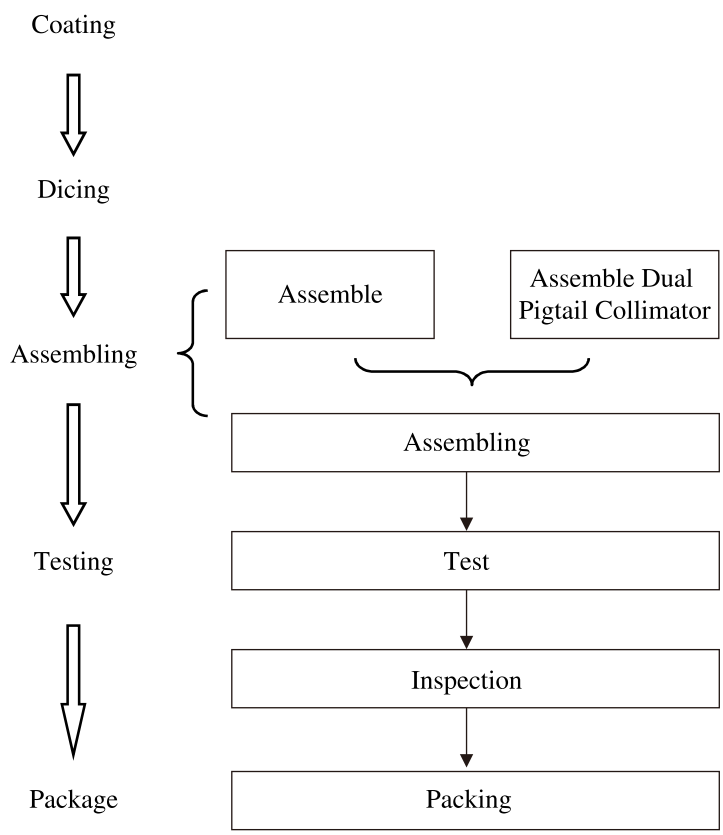
Note: The average production lead time for the production process is nine days. The production process is labor intensive and utilizes approximately 28.6 percent of our production operators.

Transmission Products
Optical Isolator Flowchart



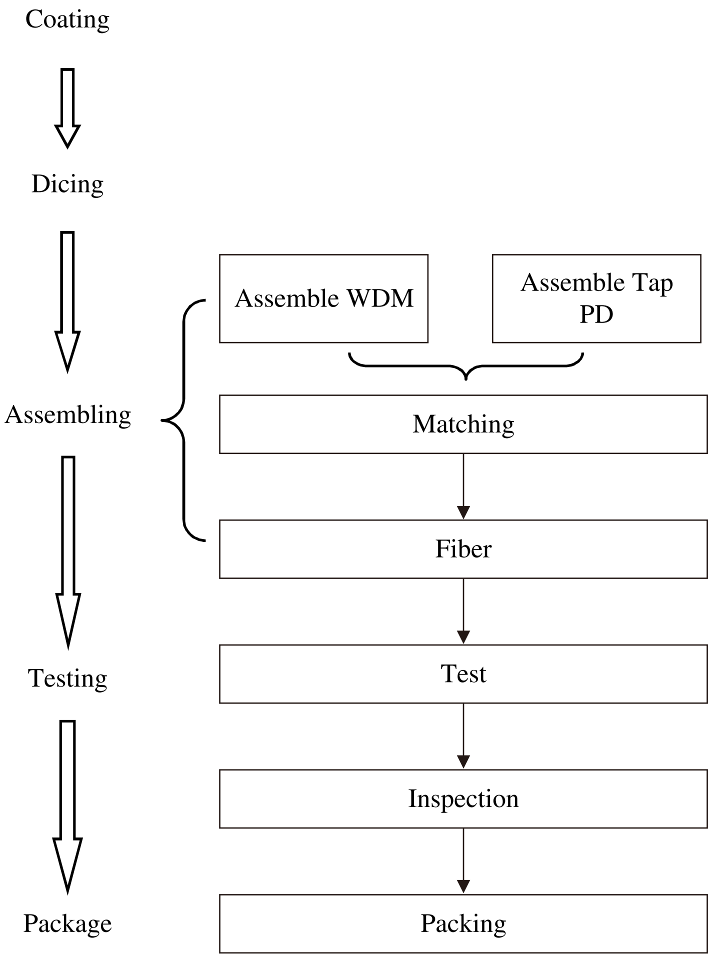
Note: The average production lead time for the production process is seven days. The production process is labor intensive and utilizes approximately 21.4 percent of our production operators.

Wavelength Management Products
WDM Flowchart



Note: The average production lead time for the production process is seven days. The production process is labor intensive and utilizes approximately 42.9 percent of our production operators.

Signal Conditioning and Monitoring Products
Tap PD Module Flowchart



Note: The average production lead time for the production process is ten days. The production process is labor intensive and utilizes approximately 7.1 percent of our production operators.

PROPERTIES

Overview

As at the Latest Practicable Date, we owned approximately 38,000 square meters of land in Pingshan New District, Shenzhen City, China on which we plan to construct a new manufacturing facility and dormitories to be occupied by our workers. We currently operate our production at a facility in the Maqueling Industrial Park in Shenzhen, China, consisting of approximately 6,553 square meters and where our production facilities and offices are located. The Maqueling Industrial Park facility is leased from Shenzhen Fengfu Industrial Co. Ltd (深圳豐富實業股份有限公司) ("Shenzhen Fengfu"), an Independent Third Party under four lease agreements. We have leased the facility covering an area of approximately 6,043 square meters in the Maqueling Industrial Park since 14 October 2002, and the leases will expire in August 2010. We entered into another lease in December 2009 covering an area of approximately 510 square meters of our facility which will expire in December 2010. Our current rent, exclusive of management fees and utilities, is approximately RMB267,000 per month.

Please refer to the Property Valuation Report set forth in Appendix IV to this prospectus for further details about our properties.

Title Certificates relating to our leased facility in Maqueling Industrial Park

The title certificates of our landlord in respect of the property in Maqueling Industrial Park covering an area of approximately 6,000 square meters where our production facilities and offices are located, as far as we are aware, expired in 2006. This represents approximately 92.2% of the space of our factory in Maqueling Industrial Park. The extension of the title certificates is, as far as we are aware, subject to negotiations between the landlord and the local government and we are not certain as to whether the landlord will be able to obtain proper title certificates before the Listing. Pending agreement between the landlord and the local government, the government may take steps to repossess the property or we may be subject to competing third party claims. Please see the section headed "Risk Factors – Risks relating to our business – Our leasehold titles in respect of some of our properties may be subject to challenge and could adversely affect our results of operations" in this prospectus. Notwithstanding the fact that two of the leases covering approximately 4,110 square meters, being approximately 62.7% of the total leased facility have been registered with the relevant local government authority in Shenzhen, the above risk factor continues to apply. In addition, two of those lease agreements consisting of approximately 2,443 square meters, being approximately 37.3% of the total leased facility have not been registered with the relevant local government authority in Shenzhen.

We lease approximately 10,590 square meters of residential units in Shenzhen for employee housing as at March 31, 2010 and approximately 680 square meters of storage space in the Longgang area of Shenzhen. Certain landlords of the residential units have been unable to produce proper title certificates to their properties. In addition, most of the lease agreements for our residential units and the storage space have not been registered with the relevant local government authority in Shenzhen.

We have been advised by our PRC legal counsel that, as a general principle, the lack of registration of a lease agreement does not affect the validity of rights existing under such lease agreement between the tenant and the landlord.

Plans to resolve the risk related to our property in Maqueling Industrial Park

(i) Construction of a new facility in Pingshan New District

We expect to relocate our production to a new facility in Pingshan New District, Shenzhen City, China, where we have purchased approximately 38,000 square meters of land. We plan to construct an 80,000 square meter multi-storey facility on a portion of the land for our operations and on another portion of the land to construct an 18,000 square meter dormitory for our workers using part of the net proceeds from the Global Offering.

O-Net Shenzhen and Shenzhen Urban Planning Land and Resource Commission (深圳市規劃和國土資源委員會, formerly known as 深圳市國土資源和房產管理局), (the "Shenzhen Land Authority") entered into the Shenzhen Land Use Right Granting Contract (深圳市土地使用權出讓合同), (the "Contract") on 18 June 2007. According to the terms of the Contract, O-Net Shenzhen should begin construction within one year from the date of the Contract. If construction does not commence within two years after the date of the Contract, being 18 June 2009, the Shenzhen Land Authority has the right to withdraw the land use right with no compensation. The Contract further specifies that the construction should have been completed on or before 17 June 2009, failing which the Shenzhen Land Authority is entitled to impose liquidated damages on O-Net Shenzhen. If completion does not occur on or before 16 June 2011, the Shenzhen Land Authority can withdraw our land use right without payment of any compensation.

The PRC Administrative Regulation of Real Property (中華人民共和國城市房地產管理法), (the "Property Regulation") became effective in 1995 and was amended in 2007. The relevant PRC regulations provide that if construction does not commence within one year after the construction commencement date specified in the contract for granting the land use right, the government has the right to levy a land idle fee in an amount up to 20% of the land grant fee. As the Contract provides that construction on the said land shall commence within one year after the date of the Contract (i.e., 17 June 2008) and the land grant fees are RMB3,839,599, the government has the right to levy a land idle fee up to RMB767,919.8 on O-Net Shenzhen. Nevertheless, the Property Regulation also provides that the land idle fee and the withdrawal of land use right are not applicable if any delay in construction was due to force majeure, governmental activities or any necessary pre-construction work.

We obtained an approval from the Pingshan Branch of the Shenzhen Land Authority on 8 March 2010 for the postponement of the commencement date of construction. According to this approval, we are required to commence construction before 8 March 2011 and completion of the construction shall be before 8 March 2012. According to our PRC legal counsel, we have obtained the necessary extension approval for the delay in commencing construction from the authorised land authority in the PRC and based on this approval O-Net Shenzhen will not be penalized under the Contract and the Property Regulation for the delay in commencing construction.

We are in the process of applying for the various permits for the construction. As confirmed by the Directors, the reason for not complying with the time limit for the construction was because procedures for pre-construction work took longer than expected. As confirmed by our PRC legal counsel, such procedures mainly included application for the land planning permit (建設用地規劃許可證), approval for the plan of construction (建設工程方案設計審批意見), approval from the relevant authorities relating to environmental protection, fire protection, water resources, sewage, etc, approval of the construction documents (施工圖設計文件審查意見), application for the construction planning permit (建設工程規劃許可證), signing of the construction agreements, and application for the construction permit (施工許可證). When processing some of the above procedures, we encountered delays in preparing, collecting of certain documents and obtaining approvals from the relevant authorities. In addition, as we are located within the jurisdiction of the industrial area of Shenzhen (深圳市大工業區), extra procedural requirements are needed which prolonged the approval process.

We obtained approval from the relevant department in respect of naming of the buildings of our new facilities and the civil air defense design was approved on 2 April 2010. We are in the process of getting the construction drawing design audited which we expect to be completed on 20 April 2010. After the construction drawing design audit is completed, as indicated on the website of the relevant governmental authorities, provided that the relevant government authorities are satisfied with the documents we submit, we expect it will take approximately another 20 working days to obtain the construction planning permit (建設工程規劃許可證) (i.e., expected to be by 18 May 2010) and another ten working days to obtain the construction permit (施工許可證) (i.e., expected to be by 1 June 2010). Subject to obtaining the necessary pre-construction permits, we can begin construction of the new facility. As advised by our PRC legal counsel, (1) subject to completing the examination procedures of our construction drawings design, obtaining approval from the relevant departments such as those dealing with environmental protection, civil air defense, heritage conservation and fire protection, and the approving authority being satisfied with the documents we submit, there are no legal obstacle for us to obtain the construction planning permit (建設工程規劃許可證); and (2) after obtaining the construction planning permit (建設工程規劃許可證), subject to entering into contracts relating the construction and the approving authority being satisfied with the documents we submit, there are no legal obstacles for us to obtain the construction permit (施工許可證). We expect the construction time required for the new facilities to be approximately ten months after we have obtained the construction planning permit

(建設工程規劃許可證) and construction permit (施工許可證), and we expect the new facility will be completed and occupied around 31 March 2011. Our Directors consider that ten months as the expected construction time is reasonable because the schedule for construction is within our control. We intend to consolidate all of our manufacturing and other operations at the new facility upon its completion.

In the event that the construction of the new facility in the Pingshan New District fails to be completed by March 2011, we plan to continue construction of the new facility while at the same time continuing to carry on our production and operation in our existing facility at Maqueling Industrial Park until the construction of the new facility is completed. We will provide the Board in its quarterly meeting an update on the construction progress. If necessary, we will hold ad-hoc meetings with the Board (including the independent non-executive Directors) to discuss the progress of the construction of the new facility. We will also include discussion about the construction progress in our annual and/or interim reports (where appropriate).

In order to monitor the construction progress of the new facility, we plan to report the progress to the Board (including the independent non-executive Directors) quarterly and implement its recommendations (if any). In addition, we also plan to send our representatives to the construction site on a daily basis and maintain a close dialogue with the necessary departments both with our Group and with the external building contractor to monitor whether the actual construction progress is in line with our construction plan and timetable. In the event that the actual construction progress is not in line with our plan and timetable, we will request our contractor to take remedial measures.

(ii) Contingency arrangements with Shenzhen Kaifa Magnetic Recording Co. Ltd. (深圳開發磁記錄股份有限公司) ("Kaifa Magnetic")

We have entered into a binding agreement with Kaifa Magnetic to relocate our production to its factory which is located in Shenzhen Export Processing Zone, Shenzhen Grand Industry Zone, Longgang, Shenzhen in the event that we are required by regulatory authorities or third parties who may have adverse claims against our landlord to move out from our current premises before completion of the construction of our new manufacturing facility.

Under the agreement we have entered into with Kaifa Magnetic, Kaifa Magnetic has agreed, at our request, that it will enter into a formal lease with us to relocate our production to its factory which is located in Shenzhen Export Processing Zone, Shenzhen Grand Industry Zone, Longgang, Shenzhen (the "Factory") at no more than the then market rent. We are entitled to make this request (i) in the event that we are required to relocate from our existing facilities in Maqueling Industrial Park; or (ii) prior to the completion of our new facility in Pingshan New District; or (iii) at anytime at our request. In the event that we enter into a formal lease with Kaifa Magnetic or any other lessor, we expect the lease term to cover a period up to the date of completion of our new facility. Since Kaifa Magnetic is a subsidiary of our substantial shareholders, Shenzhen Kaifa and

Great Wall Technology Company Limited (a company listed on the HKSE with stock code number 74), to the extent that we do enter into a lease with Kaifa Magnetic, this may constitute a connected transaction and we will comply with the relevant Listing Rules at that time. As advised by our PRC legal counsel from a PRC legal perspective, the arrangement with Kaifa Magnetic does not require approval from Great Wall Technology Company Limited and Shenzhen Kaifa, both of whom are Kaifa Magnetic's shareholders. Our Hong Kong legal counsel has also advised that the arrangement with Kaifa Magnetic does not require shareholders' approval from the perspective of the Listing Rules.

As at the Latest Practicable Date, the second to the fifth floors of the Factory are not occupied and each floor has approximately 5,000 square meters. The Group expects to lease approximately 10,000 square meters of the Factory from Kaifa Magnetic in case it is required to relocate its production from its existing facilities. Given our existing facilities consist of approximately 6,553 square meters, the Directors believe that the Factory has enough space to accommodate our existing production scale in the event that we are required to relocate from our existing facilities.

As advised by our PRC legal counsel, Kaifa Magnetic owns the legal title to the Factory. We will not relocate prior to the Listing unless evicted or forced to do so by the relevant government authority. In light of the binding agreement entered into between us and Kaifa Magnetic, if we do not receive notice from the government to relocate from our existing facilities before completion of our new facilities in Pingshan New District, we expect to continue to lease the existing facilities after the leases expire in August 2010 and December 2010. We estimate the costs of relocating our operations from the existing buildings will be approximately RMB2.5 million and the entire relocation process of moving from our current location to the temporary site located is estimated to take approximately 30 working days. As at the Latest Practicable Date, there has been no event that would require such a relocation.

We believe our rental expenses paid to Shenzhen Fengfu in Maqueling Industrial Park are below the market rent taking into account the long term relationship we have established with the landlord. If we relocate our entire production to the Factory of Kaifa Magnetic, we expect to pay rent no higher than the market rent which is at a level lower than that we currently pay since the Factory is not located in Maqueling and, to the best knowledge of the Directors, rental expenses for factories located in Longgong, Shenzhen are much cheaper than for those located in Maqueling.

(iii) Relocation Schedules

For indicative purposes only, set out below is our relocation plan assuming the commencement date is working day one ("WD") in the event that we are required to relocate our existing production facilities:

Item	Working days involved	Commencement Date	End Date
Finalizing terms and arrangement of the lease and to commence refurbishment of the factory	22	WD	WD+21
Completion of refurbishment and commence production of certain products and test quality of our products	15	WD+22	WD+36
Inform our customers of our relocation	7	WD	WD+6
After obtaining approval of our customers, request increase of orders for about one month	3	WD+7	WD+9
Recruitment of additional staff	17	WD+9	WD+25
Production lines to execute overtime production and to increase production capacity	57	WD+10	WD+66
Production lines to operate on three shifts and 24 hours per day	41	WD+26	WD+66
Relocation of half of our production lines and commence production upon receipt of quality control accreditation	15	WD+37	WD+51
Relocation of second half of our production lines and commence production upon receipt of quality control accreditation	15	WD+52	WD+66

Note: The time line of some of the above items overlaps as some of these items may be carried out concurrently.

To minimize the impact of any possible business interruption, we intend to prepare sufficient inventory to satisfy our customer's orders prior to relocation. At present, we operate on a two shifts basis and we operate 26 days per month and 18 hours per working day (which is equivalent to 468 hours of production time per month). If we are required to relocate our facilities and after informing our customers of our relocation plan, we plan to increase production of our products to enable us to satisfy orders for about one extra month prior to completion of our relocation. In those circumstances, we plan to recruit more staff and to operate on a three shifts basis, 30 days per month and 24 hours per day (which is equivalent to 720 hours of production time per month). This will increase our production capacity by approximately 53.8%. According to our relocation plan assuming the commencement date is WD as shown above, we expect to operate on this basis for approximately 41 working days prior to completion of our relocation. On this basis, we will be able to increase our production to satisfy our purchase orders for about one extra month. As such, we expect that our results of operations will not be adversely impacted by the relocation, if needed. In the event of relocation, if the Group is granted sufficient time for relocation, the Directors believe that the Group's operation will not be adversely affected.

In addition to the relocation plan and measures, we plan to take the following actions to minimize the impact of any possible business interruption as described above. In order to manage the risk arising from delay in product delivery due to immediate relocation and production suspension, we plan to communicate with our customers as early as possible to explain the possibility of changing the product delivery schedule due to our relocation and to agree on new delivery time. We plan to restore production as soon as possible according to our relocation plan and to make delivery to our customers as soon as possible.

In deciding the priority of relocation of our production lines, we will consider factors including production requirements, level of difficulty in production and pricing of the products. In general, the production lines of products which are easy to produce, inexpensive and which involve low production requirements are expected to be relocated first. In addition, we believe that other residential units are readily available and our employees can be easily relocated to new premises, if required, without any disruption to our operations.

We have previous experience in moving a production line from a prior facility to our existing facility in the Maqueling Industrial Park, during which no material disruptions to our manufacturing operations were caused and are therefore confident that any relocation of our production line and employees would not materially and adversely disrupt our operations.

In the event of the need for immediate relocation according to our relocation plan, as shown above, the Group will need approximately 51 working days to relocate the first half of our production lines. While we relocate the first half of our production lines, the other half of our production lines are expected to continue to operate. In such a scenario, the Group will lose 51 days of production and our revenue, gross profit, net profit and cash flow will be adversely affected. For indicative purposes only, in the event of such a case of immediate relocation, it is estimated that our net profit attributable to our equity holders will decrease by approximately HK$22.0 million if calculated on a pro-rata basis based on the forecasted net profit attributable to our equity holders of HK$65.9 million for the six months ending 30 June 2010 set out in subsection headed "Profit Forecast for the Six Months ending 30 June 2010" in the section headed "Financial Information" in this prospectus and on the basis that our factory operates twenty-six days per month. We also assume that, among other things, (i) the optical networking industry and overall economic development in the PRC and other countries where our customers are located during the relocation period remains the same as the period during the six months ending 30 June 2010; and (ii) our revenue, gross profit, expense to be incurred and the net profit attributable to our equity holders during the time of relocation (i.e., 51 days) remain the same on a pro-rata basis from those incurred/generated during the six months ending 30 June 2010. There is no indemnity from the Controlling Shareholders in respect of any potential loss of profit or costs otherwise arising from any need for immediate relocation.

RESEARCH AND DEVELOPMENT

We have a dedicated research and development team which, as at 31 December 2009, consisted of 63 employees, 47 of whom had completed tertiary education; and an average of 4.11 years of experience in the industry. The research department consists of two research divisions, each with an independent focus. Division 1 is led by Xie Hong and focuses on the research and development of optical components. Division 2 is led by Dr. Yu Aihua and focuses on the research and development of modules and subsystems. Ms. Xie has been in the fiber optic research field since graduating with a Bachelor's degree from Zhejiang University in 1983. She completed her Master's degree from Zhejiang University in 1988. Dr. Yu has been involved in the optical communications industry since 1982 when he graduated from Nanjing Institute of Technology (now Southeast University), specializing in electrical engineering. He earned a Master's degree in electrical engineering in 1984 at Nanjing Institute of Technology and a Doctorate degree in 1993 from Essex University in the United Kingdom.

The two divisions of our research and development team work with each other to ensure compatibility between our subcomponent, component, module and subsystem products. In addition, our research and development team works closely with our production engineering team in production planning and designing customer solutions. This work includes performing project feasibility analyses and running initial sample tests in the development and design process leading up to the introduction of new products. Additionally, certain members of our research and development team attend customer meetings with our sales and marketing team and, in certain circumstances, interface directly with customers. Our sales and marketing department discusses customer feedback with the research and development department to determine if product improvements can be made. Following product design, the research and development team works with the purchasing department to source raw materials necessary for manufacturing.

During the Track Record Period, we developed ten types of power management products, six types of FTTH products and one type of wavelength management product in 2007; we developed 17 types of power management products, four types of transmission products and two types of wavelength management products in 2008; and we developed 23 types of power management products, seven types of transmission products and three types of wavelength management products in 2009.

Our research and development expense was approximately HK$18.3 million, HK$21.0 million and HK$16.9 million for the years ended 31 December 2007, 2008 and 2009, respectively.

SALES AND MARKETING

Our Customers

We sell our products to telecommunications and data communications equipment manufacturers worldwide. In certain cases, we sell our products to our competitors or other component manufacturers for their resale or integration into their own products. As at 31 December 2009, we had 234 customers worldwide.

Our customers include many of the leading telecommunications and data communications network system vendors located around the world and their contract manufacturers. Our principal customers include leading telecommunications systems companies, such as Alcatel-Lucent and Huawei, as well as contract manufacturers to Ciena and Infinera. These customers in turn sell their systems to telecommunications and data communications service providers and cable TV operators. We work closely with our customers during the product design and development cycle, enabling us to respond promptly to the volume production requirements of our customers. The following table sets out our revenue generated from sales in the PRC, Europe, North America and Asia (excluding the PRC) regions for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
The PRC	61,640	26.8	97,525	34.3	165,697	49.0
Europe	83,597	36.4	77,972	27.4	61,025	18.0
North America	23,362	10.2	79,297	27.9	40,587	12.0
Asia (excluding the PRC)	61,104	26.6	29,844	10.4	71,076	21.0
Total	229,703	100	284,638	100	338,385	100

Our top five customers, the composition of which has varied over the period, for the years ended 31 December 2007, 2008 and 2009 collectively accounted for 56.6%, 54.3% and 44.8% of our revenue, respectively. In addition, our single largest customer for the years ended 31 December 2007, 2008 and 2009 accounted for 32.7%, 25.8% and 15.7% of our revenue, respectively. We do not have long-term purchase commitments with our customers, and their purchases from us may vary from period to period.

None of the Directors, their respective associates or existing Shareholders who own more than five percent of the issued Shares has any interest in any of the five largest customers of the Group during the Track Record Period.

We work closely with our customers to meet their unique needs, and our products typically have a long sales cycle. The period of time between our initial contact with a customer and the receipt of an actual purchase order is frequently six months to a year or more. In addition, many customers perform, and require us to perform, extensive process and product evaluation and testing of components before entering into purchase arrangements with us. Customers undertake these expensive and time-consuming qualification processes because our products must function as part of larger existing systems or networks, making reliability and inter-operability particularly important. Once customers decide to use our products, these customers design our products into their systems, which is known as a "design-in" win for a supplier such as us. For example, in 2008, a leading network system vendor qualified us to act as their supplier of wavelength lockers. Our qualification of this product by the customer took ten months to complete. Although qualifying as a supplier requires us to devote substantial management and other personnel resources without any certainty of success, once we are qualified by a customer, our ability to sell to the customer a solution for their product needs and our competitive position with the customer is greatly enhanced and we enjoy a substantially improved position in the market. This is because the qualification process is also time-consuming and expensive for customers, so they typically qualify as few suppliers as practical. Accordingly, once a customer has qualified us, we have greater certainty of making significant sales to that customer.

The number of customers that qualified us as a supplier, the number of customers that placed orders with us, and the average length of our relationship with our customers during the Track Record Period are set forth below.

	2007	**2008**	**2009**
Number of customers that qualified us as a supplier (cumulative)	190	216	234
Number of customers that placed purchase orders with us	169	164	167
Average length of relationship with our customers as at 31 December 2009	approximately 4.8 years	approximately 5.5 years	approximately 6.2 years

During the Track Record Period, no customers have disqualified us as a supplier. Not all the customers that qualified us as a supplier have subsequently placed orders with us.

When our customers design new systems, they in general approach only suppliers who have passed their pre-qualifications for certain component needs. Typically a request for information is issued to us for an initial-stage evaluation and discussion. Such request for information includes product target specifications, our evaluation for meeting such specifications or suggested revisions, and a timetable for us to complete samples. After our reply to the request for information, our customers will evaluate our reply and later issue a request for a quotation if they find our initial reply satisfactory. We will, based on our initial estimates of the research and development costs and total materials and labor costs, provide a quotation proposal which is usually in the form of volume based pricing. After receiving our reply to a request for quotation, our customers will evaluate our proposal again and if they find the cost acceptable, they will typically issue a purchase order for sample testing. Such testing is also rigorous and time-consuming and includes both performance and reliability tests, which usually take three to six months to complete. After our product passes our customers' tests, we usually hold annual pricing negotiations with our customers at the end of each year to determine the product price for next year. There are also some customers with which we hold half-year, quarterly or more frequent price negotiations.

In view of the lengthy and rigorous pre-qualification and product qualification process with a customer, we expect that the majority of our revenues will continue to depend on sales to a relatively small number of customers, although potentially not the same customers from period to period. We are in the process of being pre-qualified by additional significant customers in China and overseas and we aim to be pre-qualified by two additional significant customers by the middle of 2010.

We do not have long-term purchase commitments with our customers, and their purchases from us may vary from period to period. Most of our sales are made on the basis of short-term purchase orders with short lead times. We generally do not have contracts that provide us with any assurance of future sales. We do, however, have contracts that provide the framework for our relationships with certain customers. The framework agreements contain terms including general terms on lead time, payment terms, product quality requirements, warranties and logistics. These agreements typically provide a warranty on our products for a period of one year, but in some instances for up to five years from the date of delivery. Under the warranty, we agree to repair or replace defective products. With respect to products that are found to deviate from the description in the customers' statements of work or purchase orders, we agree in certain contracts with certain customers to accept product returns and provide refunds or to provide maintenance or replacements at no additional costs to such customers. Other than returns for defective products, we do not typically receive returns of products which were sold during Track Record Period. We have received returns for defective products amounting to approximately HK$3.7 million, HK$2.9 million and HK$3.9 million for the years ended 31 December 2007, 2008 and 2009 respectively, which we return to our customers after repair. We incurred raw material cost for repair of returned products and goods, including the ones which were incurred during the normal production process of approximately HK$0.2 million, HK$0.3 million and HK$0.2 million for the years ended 31 December 2007, 2008 and 2009. Furthermore, we agree to provide certain customers with advance notice if we plan to discontinue a product covered by certain agreements. Under certain contracts, we undertake indemnification obligations related to any losses suffered by customers resulting from our negligent or willful acts or omissions, such as infringement of intellectual property rights owned by third parties.

We produce a wide range of products within the supply chain in our industry and based on our Directors' understanding, as the number of qualified suppliers is limited in certain products, we sell certain products to some of our customers with which we now compete or in the future may compete. Mutual confidentiality obligations in these contracts reduce the risk that our confidential information will be misappropriated or improperly disclosed. Further, we typically enter into separate non-disclosure and confidentiality agreements prior to exchanging sensitive confidential information. When confidential specifications are provided we document the confidentiality requirements and remove all customer information from the specifications. In certain instances, in which the level of risk involved is significant, we may not accept a particular purchase order. If we do accept the purchase order, we employ various control procedures to protect confidential information such as limiting photocopier use to select personnel, locking USB ports on certain of our computers and removing customer names from internal documents and referring to customers by number. Further, the product design specifications can only be accessed by designated personnel who have signed a non-disclosure agreement.

We may invoice our customers (i) at the time of delivery of products (when the products leave our control); (ii) at the time of receipt of products (when our customers receive the products); or (iii) at an agreed interval and typically give our customers an average credit period of 30 to 105 days, depending, in part, on the customer's relationship with us, its location and the product type and in certain circumstances we may extend credit terms longer than 105 days. Our customers generally do not make advance payments or progress payments, but instead pay 100% of the purchase order amount within the credit terms. Our customers typically pay us through telegraphic transfers.

Sales, Marketing and Distribution

As at 31 December 2009, we employed 20 people in our sales and marketing department, who are responsible for understanding customer requirements, communicating customer requirements to other relevant departments and maintaining communications with customers throughout and beyond the product development and production process. We sell our products through our direct internal sales team, as well as through independent international sales representatives and distributors, depending on the location of the sales. Our direct internal sales team sell our product to our customers in China. We also market and sell our products using six independent international sales representatives and distributors located within North America, Europe, Japan, South Korea, India and Israel, which are all Independent Third Parties. Pursuant to the terms of the sales and distribution agreements currently in effect, these independent international sales representatives and distributors are required to promote the sales of our products within their respective geographic regions in their capacity as independent contractors and not our agents. They do not have authority to accept customers orders on our behalf and all solicitations of customer orders are subject to our approval. All products sold through these independent international sales representatives and distributors for which orders have been accepted by us will be delivered and billed by us directly to the customers, with the exception of our distributor in Japan who currently buys products directly from us and resells them to its customers in Japan. We pay commissions to our independent international sales representatives and distributors with respect to products to which a commission applies and for which they procured the sales. The applicable commission rate varies among these products and in general does not exceed 10% of the revenue generated from the sales of such products. We do not pay any commission to our distributors in Japan. Rather, we sell products to which a commission applies to our distributors in Japan at a favorable selling price up to 10% less than the selling price we generally charge other customers in exchange for their services to procure sales in Japan. Except for the standard undertaking that our products will meet the mutually agreed specifications, we do not have other liability clauses with our distributors in Japan. Either party may terminate the sales and distribution agreements by giving the other party sixty days prior notice in writing. This agreement with the Japan distributor expired on 1 February 2010 but as confirmed by the Directors, since neither party gave the other party any objection notice at least three months (i.e. 1 November 2009) prior to said expiration date, the agreement was automatically renewed for an additional year. The independent international sales distributors are not responsible for product liability, and issues of product quality or product reliability will be diverted to us.

Our marketing team promotes our products within the communications industry and gathers and analyzes market research. Our marketing professionals help us to identify and define emerging products by working closely with our customers and our research and development engineers. They also coordinate our participation in three to four major trade shows each year and design and implement our advertising efforts. In addition, our promotional activities include advertising on industry websites and in industry publications in the PRC and overseas.

PURCHASES AND SUPPLIES

The materials we use to produce our optical communications products include pump lasers, erbium doped fiber, Micro-Electrical-Mechanical Systems VOA chips, fiber jumpers, polarizers, garnets, capillaries, filters, epoxy, lenses, glass and magnetic tubing, sleeves, ferrules, inner tubes, couplers and WDMs and photodetectors. We generally purchase raw materials for our products based on purchase orders rather than long-term contracts. Most of our supplies are sourced from two or more suppliers that are able to provide customized materials to our specifications, although we depend on a limited number of suppliers for certain raw materials, packages and components that we use as inputs in our manufacturing process. In those instances where we have a limited or sole supply source, such as components provided by design houses, which tend to be smaller companies, we generally work with suppliers that have a proven track record over a number of years. If a design house is unable to provide the components, we seek to purchase the components directly from the factory or other manufacturer of the component.

Suppliers

For the years ended 31 December 2007, 2008 and 2009, we had 500, 566 and 601 suppliers, respectively.

Our top five suppliers, the composition of which has varied over the Track Record Period, for the years ended 31 December 2007, 2008 and 2009 collectively accounted for 44.6%, 37.7% and 43.1% of our purchases of raw materials, respectively. In addition, our single largest supplier for the years ended 31 December 2007, 2008 and 2009 accounted for 15.5%, 11.7% and 15.0% of our purchases of raw materials, respectively. Our oversea suppliers typically grant us credit terms ranging from zero day to 60 days while our domestic suppliers grant us credit terms ranging from 30 to 90 days from the date of issuance of invoices with respect to our trade payables. We primarily source our raw materials from suppliers located in China. The proximity of these suppliers to our production facilities is logistically convenient and it helps to reduce our procurement costs.

None of the Directors, their respective associates and existing Shareholders who own more than five per cent of the issued Shares has any interest in any of the five largest suppliers of the Group during the Track Record Period.

We have not experienced a shortage of raw materials or supplies during the Track Record Period.

Inventory Management and Logistics

We normally purchase supplies and manufacture most of our products upon receipt of specific customer purchase orders. For certain customers we hold a small amount of products or supplies in inventory in order to satisfy anticipated small-volume purchase orders with urgent deadlines.

To determine our material requirements, we generally provide a non-binding annual sales forecast based on anticipated product orders, customer forecasts, product order history, warranty and service demand and backlog. Lead times for the parts and components that we order vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. Historically, we have not encountered material difficulties in obtaining our materials on a timely basis.

QUALITY CONTROL

Our quality management system ensures that the products we provide to our customers meet or exceed industry standards. We employ a strict quality control system over our operations and have established quality-control at each stage of our production process to closely monitor the quality of our production and to ensure that our products meet all our internal benchmarks and customers' specifications.

As at 31 December 2009, we had a core quality management unit consisting of 155 people overseeing our quality control processes, audits and engineering. The head of this unit is Li Shuping, who graduated from Harbin Engineering University (哈爾濱工程大學) with a Bachelor's degree in mechanical production and equipment (機械製造工藝與設備) in 1996 and has worked in our quality control department since 2005. She reports directly to our chief executive officer.

To identify and resolve any quality control issue at an early stage, we source raw materials from suppliers which we have qualified in advance to ensure that the raw materials supplied to us meet our required quality. This also minimizes the need to return unqualified raw materials. We place all key incoming raw materials sourced from third parties in a designated area of our warehouse to be inspected by our raw material quality control examiners in accordance with a procedure established by our raw material quality control engineers. Our quality control examiners prepare a report based on the results of such inspection which report is reviewed and signed by our raw material quality control engineers. If any raw material is found to be defective or insufficient in amount, our engineers from the production material control unit and raw material quality control unit will typically return the defective raw materials to our suppliers. The amount of raw materials returned for each of the three years ended 31 December 2009 was approximately HK$1.5 million, HK$1.5 million and HK$1.2 million, respectively.

Our quality control team is also responsible for the review of specifications when a project manager receives a purchase order from a customer. After confirming the method of quality control testing and the materials to be used for each product, sample products are produced for customers' review, which are tested and inspected by our quality control team before the products are produced in mass. At each stage of our production processes, we conduct tests to ensure product quality and compliance with our internal production benchmarks. The quality control engineers attend to the production lines and conduct quality assurance examinations during the mass production stage. If the products pass the quality assurance tests, they are placed in storage. Prior to the dispatch of products, a final round of inspection occurs to ensure quality is maintained according to the customer's specifications. The products are stamped with a "QC passed" chop when they are ready for shipment.

To test reliability of our products we have adopted a sampling plan procedure that requires us to reject any lot of products in which 20% or greater of the lot is defective. We believe 20% is the benchmark generally accepted in the industry. Pursuant to this procedure, we randomly select eleven items out of every 1,000 produced for a test. The test is passed if no items out of the eleven selected are found to be defective. Occasionally, there are defective products identified during the quality control inspection. Our product defect rate varies for different products. The average defect rate across our various manufactured product types for the three years ended 31 December 2007, 2008 and 2009 was 2.98%, 3.37% and 2.44%, respectively. The relatively higher defect rate in 2008 was primarily due to the transfer of VOA from the research and development stage to volume production, which led to lower yields during the initial production stages.

In addition, we have established a quality documentation system for all purchasing, production and sales units and have implemented procedures for constant improvement and flaw prevention. Our senior management team is actively involved in setting quality control policies and monitoring our quality control performance.

Our quality management unit runs training programs, the documentation control system, design control, product change procedures, software management, product defect management, environmental testing, equipment maintenance, factory information system management and work environment management.

Our quality control system is based on the international standard ISO 9001.

The British Standards Institution (a company which provides independent third-party certification of management systems) certified us under the general standard ISO 9001:2000 in 2004 for our quality management system within the scope of the design and manufacture of fiber-optic communication products including passive components and active components, which will expire on 26 November 2010. In 2004, the British Standards Institution also certified us under the environmental standard ISO 14001 for our environmental management system in respect of the design, manufacture and technical support services of fiber-optic communication products including passive components and active components, which will expire on 10 March 2011. Additionally, the British Standards Institution certified us under the telecommunications industry standard TL9000:3.0/3.5 in 2005 and TL9000:4.0/3/5 in 2007 in respect of the design and manufacture of fiber-optic communication products including passive components and active components, which will expire on 12 August 2010.

The above certificates are valid for three years and we are subject to inspection by the certifying institution every year. Audit assessments will be conducted at the end of the third year for renewal of the certificates. We plan to start the audit assessment in April 2010 and expect to receive renewed certificates in July 2010.

COMPETITION

We operate in a highly competitive market and may not be able to compete successfully against current or potential competitors. Our principal competitors include the major global manufacturers of optical subsystems and components. Our principal competitors include Oclaro, Inc., JDSU Corporation, Oplink Communications, Inc., and Accelink Technologies Co., Ltd.

Our overall competitive position depends upon a number of factors, including:

- availability, performance and reliability of our products;
- selling price;
- the quality of our manufacturing processes;
- the breadth of our product line;
- our ability to participate in the growth of emerging technologies;
- our ability to win designs through prototyping;
- the compatibility of our products with existing communications networks; and
- our manufacturing capacity and capability.

Our competitors may have substantially greater financial, engineering and manufacturing resources as well as greater name recognition and stronger customer relationships than we do. Some of our customers are companies with which we presently or in the future may compete. Competitors in one part of our business also may rapidly become competitors in other portions of our business. In addition, our industry has recently experienced significant consolidation, and we anticipate that further consolidation will occur. This consolidation has increased, and will likely continue to increase, competition.

Some of our existing customers and potential customers, as well as our suppliers and potential suppliers, are also our competitors. These customers and suppliers may develop or acquire additional competitive products or technologies, which may cause them to reduce or cease their purchases from us or their supply to us, as the case may be. Further, these customers may reduce or discontinue purchasing our products if they perceive us as a competitive threat with respect to sales of products to their customers. Additionally, suppliers may reduce or discontinue selling materials to us if they perceive us as a competitive threat with respect to sales of products to their customers. As a result of these factors, we expect that the competitive pressures we face may intensify and may result in price reductions, reduced profit margins and loss of market share.

Competition in the optical subcomponent, component, module and subsystem industry has contributed to substantial price-driven competition. As a result, sales prices for some of the products we produce have decreased over time at varying rates. The rapid emergence of new technologies and the evolution of technical standards can greatly diminish the value of products relying on older technologies and standards and exacerbate price pressure. In addition, the current economic and industry environment in the telecommunications sector has resulted in pressure to reduce prices for our products, and we expect pricing pressure to continue for the foreseeable future, which may adversely affect our operating results.

INTELLECTUAL PROPERTY

Over the past 15 years, we have developed a wide range of propriety products either for direct sale or for integration into our optical communications products, as well as proprietary process technologies involved in our manufacturing operations. As we operate in a high-tech industry, it is important for us to seek protection for our technology from being infringed or from infringing other people's technology. In order to protect our intellectual property rights, we rely on a combination of patent, copyright, trademark and trade secret laws, as well as other methods to protect our intellectual property rights.

In addition, it is our policy to require our customers to enter into confidentiality and nondisclosure agreements before we disclose any sensitive aspects of our platforms, technology or business plans. Our senior management members and technical staff also enter into confidentiality agreements covering both the period of employment and two years after their employment with us. In addition, our control procedures to protect confidential information help us to protect our intellectual property. These procedures include limiting photocopier use to select personnel, locking USB ports on certain of our computers and removing customer names from internal documents and referring to customers by number.

As at the Latest Practicable Date, we had 31 patents and 29 pending patent applications in China, three PCT applications in the PRC and 5 pending patent applications in the United States. Our issued patents and pending patent applications relate primarily to technology we developed for our optical networking subcomponents, components, modules and subsystems, including wavelength division multiplexing, erbium-doped fiber amplifiers, triplexers, optical switches and isolators.

It is our policy to have our customers enter into confidentiality and nondisclosure agreements before we disclose any sensitive aspects of our platforms, technology or business plans.

As at the Latest Practicable Date we have registered two trademarks in China, including a trademark for our "O" logo and our Chinese name (昂納). We also have registered the following domain name: www.o-netcom.com.

Despite our efforts to protect our proprietary rights through confidentiality and licensing agreements, unauthorized parties may attempt to copy or otherwise obtain and use our platforms or technology. It is difficult to monitor unauthorized use of technology, particularly in China and other developing countries where the laws may not protect our proprietary rights as fully as those in more developed countries. In addition, our competitors may independently develop technology similar to ours.

In the course of our business, we may receive claims of infringement or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties. The optical communications industry is characterized by vigorous protection and pursuit of intellectual property rights and positions. For example, on 20 August 2008, we entered into a confidential settlement agreement related to a patent infringement dispute, in which we were named as a defendant, with Oplink Communications, Inc., alleging trade secret misappropriation and other related claims. Pursuant to the settlement agreement, the parties agreed to a license agreement and other settlement provisions. A stipulation dismissing all claims with prejudice was filed with the court jointly by the parties in September 2008.

EMPLOYEES

As at 31 December, 2009, we had 1,518 employees in China. We also had one employee in Hong Kong. A breakdown of employees by function as at the same date follows:

	As at 31 December 2009
General Management	3
Human resources and administration	39
Finance	7
Engineering	239
Research and development	63
Quality control	155
Manufacturing	992
Sales and marketing	20
Total	1,518

As required by Chinese laws and regulations, we contributed 10%-11% of our staff's basic salaries to the statutory pension fund during the Track Record Period. Our contributions to the statutory pension fund are charged to the combined profit and loss account as and when incurred. We also provide our employees with medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations. For the years ended 31 December 2007, 2008 and 2009, our total expense under the statutory employee benefit plans was approximately HK$3,269,000, HK$4,748,000 and HK$5,109,000, respectively.

Historically, we have not had any significant labor disputes. Our business is very labor-intensive, and while we have not experienced any significant difficulties in recruiting and retaining management and senior technical staff, from time to time we have experienced difficulty in recruiting and retaining assembly workers as competition for such workers has increased in the Pearl River Delta region of China. We consider our relationship with our employees to be good.

We enter into employment contracts with all of our officers, managers and employees and enter into separate non-compete contracts and confidentiality agreements with senior management members and technical staff typically covering both the period of employment and one or two years after their employment with us.

From time to time the Company has entered into option agreements with certain employees, Directors, officers and consultants for the purpose of rewarding their contributions to the Group. Pursuant to the Reorganization, 66 Grantees, most of them are employees of the Group, of which two are Directors, have a right to receive a total of 2,553,637 Shares upon exercise of all their options. See the section headed "History and Development – Options Granted by O-Net Employee Plan Limited to Certain Employees" in this prospectus for further details.

We place great emphasis on the training and development of our staff. New hires are required to attend introduction courses to ensure that they are equipped with the necessary skills and knowledge to perform their duties. The training given to staff includes an introduction to our products, fiber handling training, and training on quality control. In addition, training is also given to senior staff in areas such as leadership, management and use of the FIS through which we believe efficiency is enhanced.

We review the performance of our employees on an annual basis, the results of which are used in salary reviews and promotion appraisal. In order to remain competitive in the labor market, we also consider the remuneration packages that are offered by other companies in our industry.

ENVIRONMENT

Although we generate solid waste by-products in the course of production, removal of such solid waste by-products is not a material cost to us. Our production process does not involve any effluent by-products that require special treatment before discharging into the common sewage or drainage. The Directors have confirmed that the environment is not materially affected as a result of our operations.

We are subject to various national and local laws and regulations relating to the storage, use, discharge and disposal of toxic or otherwise hazardous or regulated chemicals or materials used in our manufacturing processes. Please refer to the section headed "Laws and Regulations – Environmental Regulations" of this prospectus for details about the environmental protection requirements related to our operations. To ensure we comply with the applicable laws and regulations related to environmental protection, we have implemented various environmental policies and we operate an environment management system which complies with the requirements of ISO 14001:2004 for the design, manufacture and technical support services of fiber-optic communication products including passive components and active components. Our environmental policies are reviewed monthly and our environment management system is assessed once every six months. These polices include policies related to the management and control of (i) consumption of energy and resources, (ii) storage and discharge of pollutants, (iii) reviewing compliance with relevant environmental laws and regulations, (iv) establishment of rules and parameters relating to environmental management and (v) training of staff. Training on environmental protection is also provided to new employees when they first join us. Mr. Rao Jun, our administration manager, is responsible for formulating and implementing measures to ensure compliance with the relevant environmental laws and regulations. He graduated with a Bachelor's degree in finance and law from Jiangxi University of Finance and Economics (江西財經大學) in 1996 and has been responsible for our environmental protection compliance since 2000.

To date, these laws and regulations have not materially affected our capital expenditures, earnings or competitive position. We do not anticipate any material capital expenditures for environmental control facilities for the foreseeable future. The cost of compliance with applicable environmental rules and regulations for the three years ended 31 December 2009 is approximately RMB26,600, RMB30,400, and RMB61,600, respectively. The expected cost of compliance with the applicable environmental rules and regulations for the three years ended 31 December 2012 is estimated to be approximately RMB51,200, RMB59,600 and RMB69,000, respectively.

We have received a confirmation from the Human Settlements and Environment Commission of Shenzhen Municipality (深圳市人居環境委員會) on 20 November 2009 that O-Net Shenzhen has not had any material violations of environmental regulations in the last three years.

INSURANCE

We maintain a property insurance policy, which covers our equipment, machinery and inventories located at our facility in the Maqueling Industrial Park in Shenzhen, China. Such property insurance policy covers losses arising from burglary, accidents and natural disasters subject to certain exclusions such as terrorists' attacks and governmental actions. Insurance coverage under such policy amounted to approximately RMB80 million and this policy is valid until 18 November 2010. We also maintain a business interruption insurance policy with the same insurer which covers loss of gross profits up to twelve months with a maximum insurance coverage of approximately RMB20 million and this policy is valid until 18 November 2010. As at the Latest Practicable Date, we have not made any material claims under our insurance policies and have not experienced any material business interruptions since we commenced operations.

INDEMNIFICATION

From time to time, in the normal course of business, we enter into contracts that contain indemnification clauses which may give rise to indemnification by us to third parties. These contracts include certain customer contracts, real estate leases, and service agreements with our Directors. Set forth below is a summary of contracts under which we have indemnification obligations:

(1) The global purchase agreement for optical components dated 11 December 2008 between Compagnie Financiere Alcatel-Lucent ("AL") and O-Net Shenzhen

During the term of the agreement, namely 1 January 2009 to 31 December 2012, O-Net Shenzhen shall indemnify and defend AL against, and hold AL harmless from, any and all claims, actions, proceedings, liabilities, losses, damages, costs or expenses (including reasonable attorneys' fees) incurred by AL resulting from, or arising out of or in connection with (i) any breach by O-Net Shenzhen of any covenant, representation or warranty by O-Net Shenzhen under the agreement and/or any related purchase order; or (ii) bodily injury (including death) or damage to any property caused by any negligent or wilful act or omission by O-Net Shenzhen or the products provided under the agreement.

(2) The framework purchase agreement dated 16 January 2007 between Huawei (華為技術有限公司) and O-Net Shenzhen

During the term of the agreement, namely from 16 January 2007 to a date on which the contract is terminated in accordance with its terms, O-Net Shenzhen shall indemnify Huawei from and against any expenses (including costs of legal proceedings and attorney fees) incurred in connection with, including, without limitation, any claims and actions against Huawei arising from any allegation of infringement of intellectual property rights relating to O-Net Shenzhen's products or services.

(3) The supply and development purchase agreement for critical components dated 19 December 2007 between Tellabs Operations, Inc. ("Tellabs") and O-Net Shenzhen

During the term of the agreement, namely from 19 December 2007 to 18 December 2010, O-Net Shenzhen shall defend, indemnify, and hold Tellabs and its customers harmless from any claims, suits, actions, liabilities, and demands of every kind or description (including but not limited to costs and reasonable attorneys' fees) to the extent that such claims are made: (a) by anyone for personal injuries (including death) or property damage (including theft) or loss resulting from (i) O-Net Shenzhen's or its subcontractor's nets or commissions, or (ii) the products described in the agreement; (b) by any person furnished by O-Net Shenzhen or its subcontractors under worker's compensation or similar acts; (c) by anyone in connection with work, product or services provided under or contemplated by the agreement; or (d) under any federal securities laws or under any other statute that results from the performance by O-Net Shenzhen contemplated by the agreement or any information obtained from or through O-Net Shenzhen in connection with such performance.

(4) Three lease agreements all dated 6 August 2009 and one lease agreement dated 9 December 2009 between Shenzhen Fengfu Properties Holdings Limited (深圳豐富實業股份有限公司) and O-Net Shenzhen

O-Net Shenzhen shall indemnify the property owner against any delay in payment of rent for more than 30 days and of expenses incurred by the property owner which exceed the amount of the rental deposit paid and any losses or liabilities suffered by the property owner in connection with the following actions and omissions by O-Net Shenzhen: use of the property to carry out illegal activities, change of the structure and unauthorized use of the property, failure to carry out repair and non-payment of repair costs, renovation of the property without prior consent of the property owner and the relevant authorities, and any unauthorized assignment of the lease to third parties.

(5) Service agreements entered into between the Company and the executive Directors and non-executive Directors all dated 22 April 2010

The Company shall indemnify and hold harmless the Directors on demand from and against any and all losses, claims, damages, liabilities, and expenses, including without limitation, any proceedings brought against the Directors, arising from the proper performance of the Director's duties in connection with the Director's appointment under the agreement, so far as permitted by law and the Articles of Association of the Company, except in any case where the matter in respect of which indemnification is sought was caused by fraud, the wilful default, wilful misconduct or negligence of the Directors or any other matter referred to in the agreement (irrespective of whether the Company terminates the agreement thereunder).

All material indemnification obligations have been set out above. We did not pay any indemnification during the Track Record Period.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

As at the Latest Practicable Date, we were not a party to any legal proceeding or investigation that is likely to have a material adverse effect on our business or financial condition.

DIRECTORS

The Board consists of eight Directors, two of whom are executive Directors, three of whom are non-executive Directors and three of whom are independent non-executive Directors. The details of such Directors are set out below.

Executive Directors

Mr. NA Qinglin (那慶林), Co-Chairman and Chief Executive Officer and a member of the Remuneration and Nomination Committees

Mr. Na, aged 43, is our co-chairman and chief executive officer. He was appointed as a Director on 12 November 2009. He is also a director of the following subsidiaries of the Company: O-Net Shenzhen, O-Net Hong Kong and O-Net BVI. Mr. Na joined us as our chief executive officer in January 2002 and has been responsible for our overall corporate strategy, management team development and daily operations since that time. In 2002, he was appointed co-chairman of the Company. Prior to joining us, Mr. Na worked at Salomon Smith Barney's Hong Kong office between 1997 and 2000 and, prior to that, worked at the New York office of Salomon Brothers Inc. from 1995 to 1997. During his time at Salomon Brothers Inc., Mr. Na specialized in corporate finance for the Asia Pacific region. In 2000, Mr. Na co-founded and became the co-managing partner of Mandarin Venture Partners in Hong Kong. Mr. Na entered the fiber optics industry when he joined us in 2002. Mr. Na earned a Master's degree in Business Administration from Vanderbilt University in 1995 and a Bachelor's degree in International Economics from Peking University in 1989. He is not related to any other Directors or our senior management members. Mr. Na has approximately 28.07% attributable interest in O-Net Holdings, the controlling shareholder of the Company. Except as described above, (i) Mr. Na has no interests in the Shares within the meaning of Part XV of the SFO, (ii) Mr. Na is independent from and not related to any other Directors, members of senior management, substantial shareholders or Controlling Shareholders of the Company and (iii) Mr. Na has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. NA Qinglin's appointment as an executive Director of our Company.

Mr. XUE Yahong (薛亞洪), Director and Vice President (Operations)

Mr. Xue, aged 50, is our vice president of operations. He was appointed as a Director on 30 November 2009. He is also a director of the following subsidiary of the Company: O-Net Shenzhen. Mr. Xue joined our operations team in March 2001. Prior to joining us, Mr. Xue was a tutor at the SouthEast University, before becoming an engineer and joining Shenzhen Kaifa in 1990. Mr. Xue worked at Shenzhen Kaifa from 1990 to 2000, during which period he spent time in Hong Kong between 1995 and 2000 to focus on work related to operations, logistics, customs, project management and customer services. He was the vice general manager of the hard disk drive department of Shenzhen Kaifa from 1995 to 2000. Since Mr. Xue took the position as the vice general manager of operations, he has been responsible for the overall supervision of the production, engineering and logistics of the Group. During the past eight years, he has participated in the development and production of our products and has assisted in the transformation of our manufacturing facility from a manual manufacturing system to a semi-automated system managed by information technology capable of higher production capacity. Mr. Xue earned a Master's degree in Engineering from Harbin Institute of Technology in 1985 and a Master's degree in Business Administration with a focus on finance from the University of Lincoln (United Kingdom), through a distance learning program administered by its Hong Kong branch, in 2002. He is not related to any other Directors or members of senior management of the Company. Mr. Xue has approximately 7.85% attributable interest in O-Net Holdings, the controlling shareholder of the Company. Except as described above (i) Mr. Xue has no interests in the Shares within the meaning of Part XV of the SFO, (ii) Mr. Xue is independent from and not related to any other Directors, members of senior management, substantial shareholders or Controlling Shareholders of the Company and (iii) Mr. Xue has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. XUE Yahong's appointment as an executive Director of our Company.

Non-executive Directors

Mr. TAM Man Chi (譚文鋕), Co-Chairman and Director and a member of the Remuneration and Nomination Committees

Mr. Tam, aged 62, is our co-chairman and non-executive Director. He was appointed as a Director on 30 November 2009. He is also a director of the following subsidiaries of the Company: O-Net BVI, O-Net Hong Kong and O-Net Shenzhen. Mr. Tam was a director of O-Net Cayman, the holding company of the Group before the Reorganization. He is not involved in the day-to-day operations of the Group as a non-executive Director, but is engaged in providing business, financial and investment advice to the Company. Mr. Tam is also responsible for coordinating all matters and transactions that have or may have conflicting interests among Directors. Mr. Tam has been an executive director of Great Wall Technology Company Limited (Stock Code: 74) since March 1998, and a non-executive director of TPV Technology Limited (Stock Code: 903) since 13 October 2009, each of which is listed on the HKSE. Mr. Tam has been a director and subsequently became the chairman and the president of Shenzhen Kaifa since July 1985 and 中國長城計算機深圳股份有限公司 ("China Great Wall Computer Shenzhen Company Limited") (Stock Code: 66) since 1999, each of which is listed on the Shenzhen Stock Exchange. Mr. Tam has been a director of Excelstor Group Limited since December 2001, a director of 深圳開發磁紀錄股份有限公司 ("Shenzhen Kaifa Magnetic Recording Company Limited") since 1996, a director of Hong Kong Kaifa since 1985 and a director of 深圳易拓科技有限公司 ("Shenzhen ExcelStor Technology Limited") since 2002. Mr. Tam was awarded the title of Excellent Worker of Guangdong Province and the Leadership

Award for Businessmen in Shenzhen in 2006. Mr. Tam has approximately 1.60% interests in the Company (after Capitalization but before Global Offering) and has approximately 6.16% attributable interest in O-Net Holdings, the controlling shareholder of the Company. Except as described above (i) Mr. Tam has no interests in the Shares within the meaning of Part XV of the SFO (ii) Mr. Tam is independent from and not related to any other Directors, members of senior management, substantial shareholders or Controlling Shareholders of the Company and (iii), Mr. Tam has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. TAM Man Chi's appointment as a non-executive Director of our Company.

Mr. CHEN Zhujiang (陳朱江), Director

Mr. Chen, aged 42, is our non-executive Director. He was appointed as a Director on 30 November 2009. Mr. Chen was a director of O-Net Cayman, the holding company of the Group before the Reorganization. He is not involved in the day-to-day operations of the Group as a non-executive Director, but is engaged in providing industry-related information and advice to the Group. Mr. Chen is a qualified engineer and economic administrator. He previously served as a director and general manager of 深圳華明計算機有限公司 ("Shenzhen Huaming Computer Co., Ltd."), and served as the vice-chief of office of 中國長城計算機深圳股份有限公司 ("China Great Wall Computer Shenzhen Company Limited") (Stock Code: 66), a company listed on the Shenzhen Stock Exchange. Mr. Chen has been the chairman of Kaifa-O&M Components Ltd., Co. and the chairman of Shenzhen Kaifa Micro-Electronics Co., Ltd since April 2005. He has also been the chairman of Suzhou Kaifa Technology Co., Ltd since July 2005, as well as the vice-president of the Shenzhen Entrepreneur Association and the Shenzhen Association of Enterprises with Foreign Investment, and he is also the standing director of the Shenzhen Electronic Chamber of Commerce. Mr. Chen received a Bachelor's degree in engineering from Tianjin University in 1989 and a Master's degree from the Business School of Jilin University in 2007. Except as described above (i) Mr. Chen has no interests in the Shares within the meaning of Part XV of the SFO, (ii) Mr. Chen is independent from and not related to any other Directors, members of senior management, substantial shareholders or Controlling Shareholders of the Company and (iii) Mr. Chen has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. CHEN Zhujiang's appointment as a non-executive Director of our Company.

Mr. HUANG Bin (黃賓), Director

Mr. Huang, aged 49, is our non-executive Director. He was appointed as a Director on 30 November 2009. He is also a director of the following subsidiary of the Company: O-Net Shenzhen. Mr. Huang was a director of O-Net Cayman, the holding company of the Group before the Reorganization. He is not involved in the day-to-day operations of the Group as a non-executive Director, but is engaged in providing financial and investment advice to the Group. He began his financial services career in 1990 with Citibank as assistant vice president and chief representative of the bank's Beijing Office and was responsible for China's client coverage. He joined Lehman Brothers in 1993 as an associate and started the firm's Beijing Office. In 1995, he joined Salomon Brothers Asia Pacific as a vice president, and was a director of Salomon Smith Barney/CitiCompany engaged in corporate finance for China market until he left the firm in 2000 to join Mandarin Venture Partners Limited in 2000 and has been responsible for investment project origination since then. Mr. Huang earned a Bachelor's degree in Economics from Harvard University in 1985. He is not related to any other Directors or our senior management members. Except as described above (i) Mr. Huang has no interests in the Shares within the meaning of Part XV of the SFO and (ii) Mr. Huang is independent from and not related to any other Directors, members of senior management, substantial shareholders or Controlling Shareholders of the Company. Mr. Huang was an executive director of Fushan International Energy Group Limited, a company listed on HKSE (stock code: 639), from November 2008 to April 2009. He has been a director of Theme International Holdings Limited, a company listed on HKSE (Stock Code: 990) since 1 December 2009. Except as described above, Mr. Huang has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. HUANG Bin's appointment as a non-executive Director of our Company.

Independent Non-executive Directors

Mr. DENG Xinping (鄧新平), Director

Mr. Deng, aged 43, is an independent non-executive Director. He was appointed as a Director on 9 April 2010. He is also a member of each of our Company's Audit Committee, Remuneration Committee and Nomination Committee respectively. Mr. Deng graduated from Hubei University, where he majored in Mathematics, in 1989. He then received a Master of Science degree from South China University of Technology in 1992. Mr. Deng has been Vice President of Longtop Financials Technologies since 1 July 2007 and has been in charge of its Business Intelligence Unit which was established to provide Business Intelligence software solutions to corporate customers in China, since 1 April 2009. In July 1995, Mr. Deng founded 廣州市菲奈特系統網絡有限公司 ("Guangzhou FENet System Networks Co., Ltd.") which started as a provider of computer equipments and related technology. Since 2001, Mr. Deng was the CEO of 廣州菲奈特軟件有限公司 ("Guangzhou FENet Software Co., Ltd."), a provider of software electronic products and computer systems, until it was acquired by Longtop Financials Technologies Limited on 1 July 2007. Guangzhou FENet Software Co., Ltd and Guangzhou FENet System Networks Co., Ltd are also wholly-owned subsidiaries of FEnet Co. Ltd.

Mr. Deng has no interests in the Shares within the meaning of Part XV of the SFO. Except as disclosed above, Mr. Deng is independent from and not related to any other Directors, members of senior management, substantial shareholders or controlling shareholders of the Company. Mr. Deng has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. DENG Xinping's appointment as an independent non-executive Director of our Company.

Mr. BAI Xiaoshu (白曉舒), Director

Mr. Bai, aged 48, is an independent non-executive Director. He was appointed as a Director on 9 April 2010. He is also a member of each of our Company's Audit Committee, Remuneration Committee and Nomination Committee, respectively. Mr. Bai holds a MBA degree from the International Institute for Management Development (IMD) (formerly known as the International Management Institute, Geneva) and a Bachelor's degree of Economics specializing in Industrial Corporate Management from Southwestern Finance & Economics University (formerly known as Sichuan Finance & Economics College). Mr. Bai has also completed the Canadian Securities Course offered by the Canadian Securities Institute in 1992. Mr. Bai was the CFO of ReneSola Ltd., the securities of which are listed on AIM of LSE and NYSE, from May 2006 to 31 March 2010 and has been appointed as the chief financial officer since 1 April 2010. Mr. Bai was the CFO of FEnet Co. Ltd. from March 2003 to April 2006. FEnet Co. Ltd. has two wholly-owned subsidiaries, namely Guangzhou FENet Software Co. Ltd. and Guangzhou FENet System Networks Co. Ltd. Mr. Bai was responsible for the financial, accounting management and internal audit affairs when he was the CFO of these companies. Before that, in 2001, Mr. Bai was the Vice President of Tractebel Asia Co Ltd., in Bangkok Thailand. Prior to 2001, Mr. Bai also worked with a number of major financial institutions and multinational companies, such as Deutsche Morgan Grenfell Hong Kong Ltd, and Covanta Energy Asia Pacific Ltd and was responsible for the planning and implementation of banking and financial services.

Mr. Bai has no interests in the Shares within the meaning of Part XV of the SFO. Mr. Bai is independent and not related to any other Directors, members of senior management, substantial shareholders or controlling shareholders of the Company. He does not hold any other position with the Company or its subsidiaries. Except as disclosed above, Mr. Bai, has not held any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. BAI Xiaoshu's appointment as an independent non-executive Director of our Company.

Mr. ONG Chor Wei (王祖偉), Director

Mr. Ong, aged 40, is our independent non-executive Director and was appointed on 9 April 2010. He is presently a director of UPB International Capital Ltd and Net Pacific Finance Holdings Ltd. He is also currently a non-executive director of Joyas International Holdings Ltd, Jets Technics International Holdings Ltd and K Plas Holdings Ltd, all of which are listed in Singapore and Man Wah Holdings Limited, which is listed in Hong Kong. He also served as a non-executive director of FM Holdings Ltd, a listed company in Singapore, between July 2009 to August 2009 due to his 10% shareholding interest in the company. He resigned as a director of FM Holdings Ltd after he disposed of all his shareholding interests in the company in August 2009. There was no disagreement between the board of directors of FM Holdings Ltd and Mr. Ong leading to his resignation. Mr. Ong is a director of various unlisted companies in Hong Kong and Singapore and has been a director of various listed companies in Hong Kong. Mr. Ong has over 19 years of experience in finance and accounting. Mr. Ong holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London. He also holds a distance learning degree in Masters in Business Administration jointly awarded by The University of Wales and The University of Manchester. Mr. Ong is an associate member of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ong has no interests in the Shares within the meaning of Part XV of the SFO. Mr. Ong is independent and not related to any other Directors, members of senior management, substantial shareholders or Controlling Shareholders of the Company. He does not hold any other position with the Company or its subsidiaries. Mr. Ong has not held any directorship in any pubic companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with Mr. Ong's appointment as an independent non-executive Director of our Company.

Matters that need to be brought to the attention of our Shareholders

The business licenses of O-Net Crystal Technology (Shenzhen) Limited (昂納晶體技術(深圳)有限公司) ("O-Net Crystal") and O-Net Integrated Technology (Shenzhen) Limited (昂納光集成技術(深圳)有限公司) ("O-Net Technology") were revoked on 30 November 2007.

Some of our Directors were also directors and the PRC legal representative of these companies at the time when the business licenses of these companies were revoked, as shown below:

Name of company	Directors	PRC legal representative
O-Net Crystal	Mr. Na Qinglin, Mr. Tam Man Chi, and Mr. Huang Bin	Mr. Tam Man Chi
O-Net Technology	Mr. Na Qinglin, and Mr. Tam Man Chi	Mr. Tam Man Chi

The board of directors of O-Net Crystal and O-Net Technology resolved to dissolve the companies as they ceased operation in 2003. The directors of these companies confirmed that it was intended that these companies would be dissolved and for this reason only, the annual inspection of these companies had therefore not been conducted since 2004. By reason of their failure to conduct annual inspection as required under Article 76 of the Regulations of the People's Republic of China on Administration of Registration of Companies (中華人民共和國公司登記管理條例), the business licenses of O-Net Crystal and O-Net Technology were revoked on 30 November 2007.

Pursuant to the Company Law of the PRC (中華人民共和國公司法) (promulgated in 2005), if a person acted as the legal representative of a company whose business license was revoked due to violation of law and if that person was personally responsible for the revocation of the business license, then for a period of three years from the revocation of the business license, that person shall not serve as a director of another company in the PRC.

As advised by our PRC legal counsel, failure to conduct annual inspection is a violation of law and if Mr. Tam Man Chi is found to be personally responsible for the revocation of the business license, he shall not serve as a director of another company in the PRC for a period of three years from the date of revocation of the business license. As at the Latest Practicable Date, more than two years has elapsed from the time of revocation of the abovementioned business licences and Mr. Tam Man Chi has confirmed that he is neither aware nor been notified that he has such aforesaid personal responsibility or that he would be prohibited under PRC laws from acting as a director of any other company in the PRC.

Since (1) the board of directors of O-Net Crystal and O-Net Technology resolved to dissolve the companies and application for the dissolution of the companies is now in progress, (2) O-Net Shenzhen has confirmed that Mr. Tam Man Chi (being the PRC legal representative of both companies) has carried on his duties in compliance with PRC laws and the articles of association of the companies and (3) Mr. Tam Man Chi has not been prohibited of being a director of a PRC company and is currently the PRC legal representative and director of several PRC companies (including his directorships in Shenzhen Kaifa and China Great Wall Computer Shenzhen Company Limited (中國長城計算機深圳股份有限公司), both of which are listed on the Shenzhen Stock Exchange in the PRC), our PRC legal counsel is of the opinion that Mr. Tam Man Chi does not have any personal liability in connection with the revocation of the business licenses of O-Net Crystal and O-Net Technology; and Mr. Na Qinglin, Mr. Tam Man Chi, Mr. Huang Bin and the Company will not be penalized by the relevant regulatory authorities.

Since Mr. Tam is a non-executive Director and is not involved in the day-to-day operation of the Group, the proper functioning of the Board will not be affected if he is found to be personally responsible for the revocation of the business licenses of these companies and is prohibited from serving as a director of another company in the PRC until 30 November 2010.

Having considered our PRC legal counsel's opinion stated above, the declaration and undertaking to be made by Mr. Na Qinglin, Mr. Tam Man Chi and Mr. Huang Bin pursuant to Rule 9.11(38) of the Listing Rules and the fact that the PRC regulatory authorities continue to permit Mr. Tam Man Chi to be a director of two listed companies in the PRC, the Sole Sponsor is satisfied that the roles of Mr. Na Qinglin, Mr. Tam Man Chi and Mr. Huang Bin in the above mentioned companies which have had their licences revoked would not materially and adversely affect the Sole Sponsor's view as to their ability to achieve a standard of competence commensurate with the position as a director of a listed issuer pursuant to Rules 3.08 and 3.09 of the Listing Rules. Please refer to the section headed "Laws and Regulations – Regulatory Compliance" of this prospectus for the measures taken by us to ensure ongoing compliance with the relevant regulatory requirements.

Except as disclosed, each of the Directors confirm that there is no other information that is required to be disclosed pursuant to any of the requirements under Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules or are there any matters that need to be brought to the attention of the Shareholders of our Company.

SENIOR MANAGEMENT

Dr. YU Aihua (虞愛華)

Dr. Yu, aged 52, is the Vice President of Research and Development – Modules and Subsystems. He joined the Company on 16 April 2004 and is currently responsible for the division of the Research and Development department that focuses on modules and subsystems. In this position, Dr. Yu oversees 37 employees. Dr. Yu has been involved in the optical communications industry since 1982 when he graduated from 南京工程學院 ("Nanjing

Institute of Technology") (now Southeast University), specializing in electrical engineering. He completed his MS in electrical engineering in 1984 at Nanjing Institute of Technology. Dr. Yu received his Doctorate degree in electronic systems engineering in 1993 from Essex University in the United Kingdom. He also held the position of Chief Research Officer in the Department of Electronic Systems Engineering of Essex University between 1992 and 1997.

Ms. XIE Hong (謝紅)

Ms. Xie, aged 47, is the Vice President of Research and Development – Components. She became Head of Research and Development on 3 January 2001 and today manages 25 employees focused on research and development related to optical components. In that position, Ms. Xie oversees the development of new products, the improvement of existing products and the resolution of technical problems. Ms. Xie has been in the fiber optic research field since graduating with a Bachelor's degree from Zhejiang University in 1983. She completed her Master's degree from Zhejiang University in 1988. From 1983 through 1997, Ms. Xie was a faculty member at Zhejiang University, teaching optical engineering courses. She joined Shenzhen Kaifa's fiber optic department in August 1999, after returning from a visiting scholar trip at the University of Illinois.

Mr. Boon Thong TAN Steven (陳文通)

Mr. Tan, aged 40, is our Vice President of Sales & Marketing. He has been leading the Company's international sales since 1 February 2002 and global sales and marketing since 18 January 2004. He joined Shenzhen Kaifa in 1998 where he was responsible for project engineering. Prior to that Mr. Tan worked as technical staff at Thomson Electric (Malaysia) Sdn. Bhd. and Seagate Technologies (Malaysia) Sdn. Bhd. Mr. Tan graduated with a Bachelor's degree in physics from the National University of Malaysia in 1994.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Lee Hang Tat (李行達), age 35, is the chief financial officer and company secretary of the Company and is responsible for the financial, accounting and company secretarial functions of our Group. He has over 12 years of experience in auditing, accounting and financial management in Hong Kong and the PRC. From March 2003 to August 2004, he was the deputy financial controller of HKSE listed Glory Future Group Limited (now known as China Metal Resources Holdings Limited) (Stock Code: 8071), where he was responsible for the management of the accounting, operations and financial reporting. He then joined E-mice Solutions (HK) Limited as its financial controller and was involved in all accounting-related matters of the company from August 2004 to April 2005. Afterwards, he became the senior financial controller of World Wide Stationary Manufacturing Company Limited from June 2005 to May 2008 and the chief financial officer of TNT Fashions Limited from February 2009 to December 2009, where he was responsible for overseeing the finance and accounting functions of such companies, before he joined our Company on 1 January 2010. Mr. Lee obtained a Bachelor's degree in business administration (Accounting and Finance) from the University of Hong Kong in 1997. He has been a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants since 2004 and 2009, respectively.

BOARD COMMITTEES

Audit Committee

Our Company established the Audit Committee on 9 April 2010, with effect from the Listing with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process and internal control systems of our Company.

The Audit Committee consists of three members, namely, Mr. Ong Chor Wei, Mr. Bai Xiaoshu and Mr. Deng Xinping. They are all independent non-executive Directors. The Audit Committee is chaired by Mr. Ong Chor Wei.

Remuneration Committee

Our Company established a Remuneration Committee on 9 April 2010, with effect from the Listing. The primary duties of the Remuneration Committee are to evaluate and make recommendations to our Board regarding the compensation of the chief executive officer and other executive Directors. In addition, the Remuneration Committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The Remuneration Committee consists of five members, namely, Mr. Tam Man Chi, Mr. Na Qinglin, Mr. Bai Xiaoshu, Mr. Deng Xinping, and Mr. Ong Chor Wei. The Remuneration Committee is chaired by Mr. Tam Man Chi.

Nomination Committee

Our Company established a nomination committee on 9 April 2010, with effect from the Listing to make recommendations to our Board regarding candidates to fill vacancies on our Board.

The Nomination Committee consists of five members, namely, Mr. Na Qinglin, Mr. Bai Xiaoshu, Mr. Deng Xinping, Mr. Ong Chor Wei, and Mr. Tam Man Chi. The Nomination Committee is chaired by Mr. Na Qinglin.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our remuneration policies are formulated based on qualifications, years of experiences and the performance of individual employees and are reviewed regularly. The same policies will be adopted after the Listing Date.

The aggregate amount of remuneration (including any salaries, fees, share options, other benefits and allowances and pension scheme contributions) paid by us during the years ended December 31 2007, 2008 and 2009, to those persons who have been or are our Directors, was approximately HK$1.6 million, HK$2.2 million and HK$3.1 million, respectively.

Our five highest paid individuals for the three years ended 31 December 2009 included 3 Directors.

Except as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 31 December 2007, 2008 and 2009 by us or any of our subsidiaries to our Directors or our five highest paid individuals.

PARTICULARS OF DIRECTORS' SERVICE CONTRACTS

Details of service contracts entered into between us and each of our Directors are summarized in the section headed "Statutory and General Information – C. Further Information About Directors, Management And Staff – 2. Particulars of service agreements" in Appendix VI to this prospectus.

COMPLIANCE ADVISOR

We will appoint Quam Capital Limited as our compliance advisor upon Listing in compliance with Rule 3A.19 of the Listing Rules.

We expect to enter into a compliance advisor's agreement with the compliance advisor, the material terms of which we expect to be as follows:

1. we will appoint the compliance advisor for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the date of Listing and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

2. the compliance advisor shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communication with the HKSE; and

3. we may terminate the appointment of the compliance advisor only if the compliance advisor's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to the compliance advisor as permitted by Rule 3A.26 of the Listing Rules. The compliance advisor will have the right to resign or terminate its appointment if we breach the agreement.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors and the chief executive of the Company are aware, immediately following completion of the Global Offering, but without taking into account any Over-allotment Shares which may be sold and transferred upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the following persons will have an interest or short position in the shares or underlying shares of the Company which must be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company:

Name	Number of Shares held	Nature of interest	Approximate percentage of shareholding
Hong Kong Kaifa(1)	266,688,420	Beneficial owner	34.50%
Shenzhen Kaifa(1)(2)	266,688,420	Interest of a controlled corporation	34.50%
Great Wall Technology(2)	266,688,420	Interest of a controlled corporation	34.50%
O-Net Holdings(3)	295,234,280	Beneficial owner	38.19%
Mandarin IT Fund I(3)(4)	295,234,280	Interest of a controlled corporation	38.19%
HC Capital Limited(4)(5)	295,234,280	Interest of a controlled corporation	38.19%
Hsin Chong International Holdings Limited(5)(6)	295,234,280	Interest of a controlled corporation	38.19%
Meou-tsen Geoffrey YEH(6)	295,234,280	Interest of a controlled corporation	38.19%
Mandarin VP (BVI) Limited(7)	295,234,280	Investment manager of Mandarin IT Fund I	38.19%
Mandarin Venture Partners Limited(7)(8)	295,234,280	Interest of a controlled corporation	38.19%
Mr. Na Qinglin(8)	295,234,280	Interest of a controlled corporation	38.19%

Notes:

(1) Hong Kong Kaifa is a wholly-owned subsidiary of Shenzhen Kaifa; therefore, Shenzhen Kaifa is deemed to be interested in 266,688,420 Shares under the SFO.

(2) Shenzhen Kaifa is a subsidiary of Great Wall Technology, therefore Great Wall Technology is deemed to be interested in 266,688,420 Shares under the SFO.

(3) O-Net Holdings is owned as to approximately 49.18% by Mandarin IT Fund I; therefore, Mandarin IT Fund I is deemed to be interested in 295,234,280 Shares under the SFO.

(4) Mandarin IT Fund I is owned as to approximately 37.25% by HC Capital Limited; therefore, HC Capital Limited is deemed to be interested in 295,234,280 Shares under the SFO.

(5) HC Capital Limited is an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited (a holding company indirectly holding the shares of Mandarin IT Fund I without conducting any actual business); therefore, Hsin Chong International Holdings Limited is deemed to be interested in 295,234,280 Shares under the SFO.

(6) Meou-tsen Geoffrey YEH is the controlling shareholder of Hsin Chong International Holdings Limited and is deemed to be interested in 295,234,280 Shares under the SFO.

(7) Mandarin VP (BVI) Limited is a wholly-owned subsidiary of Mandarin Venture Partners Limited; therefore, Mandarin Venture Partners Limited is deemed to be interested in 295,234,280 Shares under the SFO.

(8) Mandarin Venture Partners Limited is owned as to approximately 75% by Mr. Na Qinglin; therefore Mr. Na Qinglin is deemed to be interested in 295,234,280 Shares under the SFO.

Undertakings

(a) Restriction on further issue of Shares by us

Pursuant to Rule 10.08 of the Listing Rules, we will not issue any further shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our securities first commence dealing on the HKSE (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering (including the exercise of the Over-allotment Option, the options to be granted under the Share Option Scheme) or for the circumstances provided under Rule 10.08 of the Listing Rules.

(b) Restriction on disposal of Shares by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholders have undertaken to the Company and the HKSE that, except pursuant to the Global Offering, the Capitalization Issue or the Over-allotment Option and except as permitted under the Stock Borrowing Agreement:

(1) in the period commencing on the date by reference to which disclosure of their shareholdings in the Company is made in this prospectus and ending on the date which is six months from the Listing Date, they shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which each of them is shown by this prospectus to be the beneficial owner; and

(2) in the period of six months commencing on the date on which the period referred to in (1) above expires, they shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which each of them is shown by this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that they would cease to be a controlling shareholder (as defined under the Listing Rules) of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have undertaken to the Company and the HKSE that, within the period commencing on the date by reference to which disclosure of their shareholdings in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, they shall:

(1) when any of them pledges or charges any securities in our Company beneficially owned by any of them in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge/charge together with the number of Shares so pledged/charged; and

(2) when any of them receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform our Company in writing of such indications.

The Company has undertaken to the HKSE that as soon as it has been informed of matters referred to in paragraphs (1) and (2) above by the Controlling Shareholders, it shall disclose such matters by way of an announcement which is published in accordance with the Listing Rules as soon as possible.

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering, O-Net Holdings and Hong Kong Kaifa will exercise voting rights of approximately 38.19% and approximately 34.50%, respectively, and in the aggregate of approximately 72.69% of the Shares eligible to vote in the general meeting of our Company, while Mandarin IT Fund I, will control the exercise of approximately 38.19% of the Shares eligible to vote in the general meeting of our Company through its control of approximately 49.18% of the interests in O-Net Holdings.

Hong Kong Kaifa is the wholly-owned subsidiary of Shenzhen Kaifa, approximately 49.64% of which is owned by Great Wall Technology. O-Net Holdings was established in the BVI on 13 January 2010 and is jointly controlling our Company with Hong Kong Kaifa. O-Net Holdings does not engage in any business and is owned approximately 49.18% by Mandarin IT Fund I, approximately 23.70% by Mariscal Limited, approximately 18.48% by O-Net Employee Plan Limited, approximately 6.95% by Mr. Na Qinglin and approximately 1.69% by Mr. Xue Yahong.

Mandarin IT Fund I is legally and beneficially owned approximately 0.00005% by Mr. Na Qinglin, approximately 0.00005% by Mr. Huang Bin and approximately 99.9999% by ten corporate shareholders, out of which approximately 37.25% is owned by HC Capital Limited, an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited with Mr. Geoffrey Yeh Meou-tsen as its controlling shareholder. Neither Hsin Chong International Holdings Limited nor any of its subsidiaries, including HC Capital Limited has ever been involved in the establishment, development and management of the Group. Except for Mandarin Venture Partners Limited, a company owned approximately 75% by Mr. Na Qinglin, which owns approximately 2.59% of Mandarin IT Fund I and 100% of Mandarin VP (BVI) Limited, a company indirectly owned approximately 75% by Mr. Na Qinglin, the other eight corporate shareholders, including HC Capital Limited and all its direct and indirect shareholders, are Independent Third Parties.

Mariscal Limited is owned approximately 44.44% by Mandarin IT Fund I and approximately 55.55% by Mandarin Assets Limited. Mandarin Assets Limited is wholly-owned by Mr. Na Qinglin. O-Net Employee Plan Limited is owned approximately 33.33% by Mr. Na Qinglin, Mr. Tam Man Chi and Mr. Xue Yahong, respectively.

Shenzhen Kaifa and its group specializes in research and development, manufacture and sales of head stack assembly, meter products, fiscal cash register products, memory products and electronic products and Mandarin IT Fund I was established for investment purpose; while our Group focuses on supplying fiber optic network systems to vendors of optical networking subcomponents, components, modules and subsystems used in high-speed telecommunications and data communications networks. As the nature of their businesses, products and customers are different, the Directors are of the opinion that there is no competition between Shenzhen Kaifa and its group and our Group.

EXCLUDED BUSINESS OF THE COMPANY

The Controlling Shareholders have interests in certain companies (other than the Group) with businesses that have been delineated from the Group's business. Below is a summary of the private companies in which the Controlling Shareholders have interests and the nature of their respective businesses and the scale of the operations ("Excluded Business") as at the Latest Practicable Date:

O-Net Integrated Technology (Shenzhen) Limited

O-Net Integrated Technology (Shenzhen) Limited is a PRC incorporated company, which is wholly-owned by O-Net Cayman. Its registered capital is US$7,230,000. It was principally engaged in the design, manufacturing and sale of optic-integrated chips and related parts. This company has ceased to operate since 2003 and its business license was revoked on 30 November 2007 for the reason of not completing its annual inspection pursuant to Article 76 of the People's Republic of China Company Registration Regulation.

O-Net Crystal Technology (Shenzhen) Limited

O-Net Crystal Technology (Shenzhen) Limited is a PRC incorporated company, which is wholly-owned by O-Net Cayman. Its registered capital is RMB20,000,000. It was principally engaged in the design, manufacturing and sale of synthetic crystal and related parts. Similar to O-Net Integrated Technology (Shenzhen) Limited, it has ceased to operate since 2003, and its business license was revoked on 30 November 2007 for the reason of not completing its annual inspection pursuant to Article 76 of the People's Republic of China Company Registration Regulation.

So far as the Directors are aware of, members of the above two companies have already applied to dissolve the companies.

O-Net Lasers Limited

O-Net Lasers Limited is a Hong Kong incorporated company, which is owned 100% by O-Net Cayman. This company was established for the purpose of developing the Group's active component business. However, due to the market conditions, the Group didn't pursue such objective and this company has been dormant since its inception.

OMT group companies

OMT Digital Display Technology Limited (previously known as OMT Optronics Limited) is a BVI incorporated company, which is wholly-owned by O-Net Cayman. This company owns 100% of the equity interest of OMT Systems Limited, another BVI incorporated company, which further owns 100% of the interests of two subsidiaries, namely OMT Systems (HK) Limited and OMT Digital Display Technology (Shenzhen) Limited. The OMT group companies are principally engaged in the design, manufacturing and sale of liquid crystal on silicon

(LCoS) type projectors and rear-projection TVs. The OMT group companies operated for approximately six years since 2002 and ceased to operate since May 2008. The business of the OMT group companies was different from that of the Group. Their operations were funded by their own internal resources and/or shareholders and/or other external financial arrangements which are independent of the Group.

As at the Latest Practicable Date, the Controlling Shareholders do not have any plan and/or intention as to the development of the businesses of O-Net Lasers Limited and OMT group companies.

The nature of the business and the products manufactured by the Group are different from the products manufactured by the Excluded Business, and all of the Excluded Business have actually ceased to operate, thus the Directors are of the view that the Excluded Business does not pose any direct or indirect actual competition with the Group's business despite the fact that Mr. Na Qinglin, Mr. Tam Man Chi, Mr. Xue Yahong and Mr. Huang Bin are also directors of the Excluded Business.

Having considered the matters described above and the following factors, we believe that our Company is capable of carrying on its business independently from and without reliance on the Controlling Shareholders after the Listing for the following reasons.

MANAGEMENT INDEPENDENCE

Our Board currently is comprised of two executive Directors, three non-executive Directors and three Independent non-executive Directors. Mr. Tam Man Chi, the founder and chairman of Shenzhen Kaifa and its group, is one of our non-executive Directors. Mr. Na Qinglin, the sole director of O-Net Holdings and a director of Mandarin IT Fund I, is our chairman and one of our executive Directors. Mr. Huang Bin, the other director of Mandarin IT Fund I, is one of our non-executive Directors. Except as disclosed above, no other directors of our Controlling Shareholders hold any directorship in our Company.

Despite the interest of the Controlling Shareholders in other companies outside the Company, we consider that our Board will function independently from the Controlling Shareholders because:

(a) each Director is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;

(b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum; and

(c) our Board comprises eight Directors and three of them are independent non-executive Directors, which represents more than one-third of the members of the Board. This is in line with or better than current governance best practice in Hong Kong.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the Global Offering.

OPERATIONAL INDEPENDENCE

The Company makes business decisions independently and holds all relevant licenses necessary to carry on its business and has sufficient capital, equipment and employees to operate its business independently. In addition, our Directors consider that our operation does not depend on the operation of the Controlling Shareholders for the following reasons:

(a) we have our own operational structure made up of separate departments, such as research and development, manufacturing and sales and marketing, each with a specific area of responsibility. We have also established a set of internal control procedures to facilitate the effective operation of our business. We have independent access to suppliers of raw materials and have our own distribution, sales and marketing network;

(b) as at the Latest Practicable Date, we have two trademarks, 33 patents and one domain name, which are all registered in the name of O-Net Shenzhen, as set out in the paragraph headed "Intellectual Property Rights" in Appendix IV to this prospectus; and

(c) we have our sole manufacturing facilities in the PRC.

FINANCIAL INDEPENDENCE

We have our own accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and we make financial decision according to our own business needs. We do not rely on any guarantee provided by any of our Controlling Shareholders in respect of bank borrowings nor have we given any guarantee for the benefit of any of our Controlling Shareholders. Our Directors confirm that during the Track Record Period and as at the Latest Practicable Date, none of the Controlling Shareholders had provided any guarantee to our Company.

Our Directors confirm that all outstanding payables due to Shenzhen Kaifa will be fully settled using the proceeds from the Global Offering, after netting off the other receivable balances due from it and further confirm that all other outstanding receivables due from the related parties as set out in the note headed "25 Related Party Transactions" in Appendix I to this prospectus have been settled before the Listing, and the Directors do not expect our Group to be financially dependent on any related party after the Listing.

On the basis of the information provided in this section, we believe that we are capable of carrying on our business independently of the Controlling Shareholders and their respective associates. Our Company, the Controlling Shareholders and their respective associates, did not have any common or shared facilities or resources during the Track Record Period and up to the Latest Practicable Date.

NON-COMPETITION UNDERTAKING

Hong Kong Kaifa, Mandarin IT Fund I, O-Net Holdings and Mr. Na Qinglin (the "Covenantors"), have confirmed that other than their interest in the Company, none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business of the Group. In accordance with the non-competition undertakings set out in the deed of non-competition undertaking dated 16 April 2010 (the "Deed of Non-competition"), each of the Covenantors has irrevocably agreed, undertaken and covenanted with the Company (for itself and on behalf of its subsidiaries) that during the period commencing from the Listing Date and ending on the occurrence of the earliest of (i) the day on which the Shares have been withdrawn from listing on the HKSE; or (ii) the day on which the relevant Covenantor and its successors, individually or collectively, cease to be a "controlling shareholder" (as the term is defined from time to time in the Listing Rules) of the Company:

(a) to procure that it will not, and will procure that its associates will not, either on its own account or in conjunction with or on behalf of any person, firm or company, (i) directly or indirectly, whether as principal or agent, solely or jointly with other natural person, legal entity, enterprise or otherwise (including but not limited to the case whether as a shareholder, partner, agent, employee or otherwise and whether for profit, reward or otherwise) operate, participate, invest, engage in, acquire or hold any business in any form or manner that is, directly or indirectly, in competition with or is likely to be in competition with any business of the Group as set out in this Prospectus in the PRC, Hong Kong or any part of the world in which any member of the Group may from time to time operate ("Restricted Activity"); (ii) directly or indirectly, solicit, interfere with or entice away from any member of the Group, any natural person, legal entity, enterprise or otherwise who, to any of the Covenanters' knowledge, as at the date of the Deed of Non-Competition, is or has been or will after the date of the Deed of Non-Competition be, a customer, supplier, distributor or management, technical staff or employee (of managerial grade or more) of any member of the Group; and (iii) exploit its knowledge or information obtained from the Group to compete, directly or indirectly, with the Restricted Activity carried on by the Group from time to time.

(b) the above undertaking will not apply as provided hereunder:

    (i) any of the Covenantors and/or its associates are entitled to invest, participate and be engaged in any Restricted Activity, regardless of value, which has been offered or made available to the Group, provided always that information about the principal terms thereof has been disclosed to the Company and the Company has, after review and approval by the independent non-executive Directors, confirmed that it does not wish to be involved or engaged, or to participate, in the relevant Restricted Activity and provided also that the principal terms on which that Covenantor (or its relevant associate(s)) invests, participates or engages in the Restricted Activity are substantially the same as or not more favorable than those disclosed to the Company. Subject to the above, if the Covenantor and/or its associates decide to be involved, engaged, or participate in the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to the Company as soon as practicable, but in any event before any binding commitment is entered into by the Covenanters and/or their respective associates (as the case may be);

(ii) sub-paragraph (a) above does not apply in relation to those investments in and operations of companies which are engaging in the Restricted Activity in which the Covenantors (and their respective associates) are already, directly or indirectly, interested as at the date of the prospectus and details of which have been specifically disclosed in the prospectus;

(iii) sub-paragraph (a) above does not apply in respect of the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a stock exchange and either:

1. the relevant Restricted Activity (and assets relating thereto) accounts for less than 10% of the relevant company's combined turnover or combined assets, as shown in that company's latest audited accounts; or

2. the total number of the shares held by the Covenantors and their associates or in which they are together interested does not amount to more than 10% of the issued shares of that class of the company in question, provided that the Covenantors and their respective associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there is a holder of such shares holding (together, where appropriate, with its associates) a larger percentage of the shares in question than the Covenantors and their respective associates together hold;

(c) each of the provisions in sub-paragraph (b) above is a separate exception to sub-paragraph (a) above, available independently (except as expressly provided therein) of the availability of any other such exceptions.

CORPORATE GOVERNANCE MEASURES

The Group will adopt the following measures to manage the conflict of interests arising from any competing business and to safeguard the interests of our Shareholders:

(i) the Group will disclose the decisions of the Independent Non-executive Directors (along with the basis of such decisions) to pursue or decline any opportunity to engage in the Restricted Activity referred by the Controlling Shareholders, and the result of the review of the Controlling Shareholders' compliance with the Deed of Non-competition in the annual report of the Group;

(ii) the Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-competition in the annual report of the Group; and

(iii) the Controlling Shareholders will provide all information necessary for the annual review by the Independent Non-executive Directors in relation to the enforcement of the Deed of Non-competition.

We have entered into the following transactions which will, upon the Listing, constitute our continuing connected transactions as defined under the Listing Rules.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Contingency arrangement relating to an intention to enter into a lease

O-Net Shenzhen had on 20 February 2010 and 9 March 2010 entered into an agreement and a supplemental agreement respectively with Shenzhen Kaifa Magnetic Recording Co. Ltd. (深圳開發磁記錄 股份有限公司) ("Kaifa Magnetic") in relation to the granting of a right by Kaifa Magnetic in favor of O-Net Shenzhen (one of our wholly-owned subsidiaries) to lease a premises located in Shenzhen. Kaifa Magnetic is a company which is 43% and 57% owned by Great Wall Technology and Shenzhen Kaifa respectively, which are associates of our substantial shareholder as defined under the Listing Rules. Hence, Kaifa Magnetic is a Connected Person pursuant to Rules 1.01 and 14A.11 of the Listing Rules.

According to the above-mentioned agreements, Kaifa Magnetic has agreed that it would, under certain specific circumstances, enter into a lease with O-Net Shenzhen in respect of a premises of a gross floor area of approximately 10,000 square meters situated at Shenzhen Export Processing Zone, Shenzhen Grand Industry Zone, Longgang (the "Factory") for O-Net Shenzhen to relocate its production to the Factory at no more than the then market rent (i) in the event that we are required to relocate our production base from its existing facilities in 10-1 South, Macqueling Industrial Park, Nanshan District, Shenzhen; or (ii) prior to the completion of our new facility in Pingshan New District; or (iii) anytime at our request. The lease term is expected to cover up to the date of completion of our new facility in Pingshan New District.

Given that no consideration is required to be paid by any of O-Net Shenzhen or us to Kaifa Magnetic in relation to the above agreement and supplemental agreement, the percentage ratios (other than the profit ratio) as defined under the Listing Rules of each of the agreements on an annual basis is less than 0.1%, or if more than 0.1%, is less than 2.5% and the annual consideration is less than HK$1.0 million; hence the transactions in relation to the intention to enter into a lease constitute exempt continuing connected transactions for the Group under Rule 14A.33(3) of the Listing Rules, and will not be subject to any disclosure or shareholders' approval requirement.

Our Directors will ensure compliance with the applicable Listing Rules if a formal lease for the Factory is entered into in the future.

Our Directors (including our independent non-executive Directors) and the Sole Sponsor have confirmed that the terms of the agreement and the supplemental agreement in relation to the intention to enter into a lease were entered on an arms-length basis and on normal commercial terms or terms more favorable to our Group and are in the interests of our Company and Shareholders as a whole.

Acceptance of Tenancy Agreement

On 31 December 2009, O-Net Hong Kong and Mandarin VP (HK) Limited entered into a tenancy agreement relating to the lease of unit no. 1608 on the 16th Floor of West Tower, Shun Tak Centre, Nos.168-200 Connaught Road Central, Hong Kong (the "Premises") from an Independent Third Party. The lease of the Premises is for a fixed term of two years from the date of the tenancy agreement, and the monthly rental is fixed at HK$50,000, i.e., HK$600,000 on an annual basis. Pursuant to the tenancy agreement, O-Net Hong Kong and Mandarin VP (HK) Limited have joint and several obligations to pay the rental and the rates, government rent, management fee and outgoings in respect of the Premises. Mandarin VP (HK) Limited is a company controlled by one of our Directors, and it is therefore a Connected Person pursuant to Rules 1.01 and 14A.11 of the Listing Rules.

On 31 December 2009, O-Net Hong Kong and Mandarin VP (HK) Limited entered into an Acceptance of Tenancy Agreement, pursuant to which the parties agreed to be responsible for the monthly rental for the lease of the Premises and all rates, government rents, management fees and outgoings payable in respect of the Premises in equal share.

Given that the percentage ratio (other than the profit ratio) as defined under the Listing Rules in relation to the Acceptance of Tenancy Agreement to be borne by O-Net Hong Kong is less than 0.1%, or if more than 0.1%, is less than 2.5% and the annual consideration is less than HK$1.0 million, the transactions constitute an exempt continuing connected transaction for the Group under Rule 14A.33 of the Listing Rules, and will not be subject to any disclosure or shareholders' approval requirement.

Our Directors (including our Independent non-executive Directors) and the Sole Sponsor have confirmed that the Acceptance of Tenancy Agreement was entered on an arms-length basis and on normal commercial terms or terms more favorable to our Group and is in the interest of our Company and Shareholders as a whole.

BEFORE THE GLOBAL OFFERING

As at the date of this prospectus, our authorized share capital is HK$100,000,000 divided into 10,000,000,000 shares of nominal value of HK$0.01 each.

UPON COMPLETION OF THE GLOBAL OFFERING

The share capital of our Company immediately following the Global Offering will be as follows:

			Approximate percentage of issued capital
		HK$	*(%)*
10,000	Shares in issue at the date of this prospectus	100	0.0013
579,805,240	Shares to be issued pursuant to the Capitalization Issue	5,798,052.40	74.9979
193,280,000	Shares to be issued pursuant to the Global Offering	1,932,800.00	25.0008
773,095,240	Total	7,730,952.40	100

Note: A total of up to 28,990,000 Shares (representing in aggregate approximately 15% of the Offer Shares initially being offered by us under the Global Offering) issued to the Over-allotment Grantors will be offered for sale by the Over-allotment Grantors under the International Offering if the Over-allotment Option is exercised in full by the Sole Global Coordinator (on behalf of the International Underwriters) pursuant to the International Purchase Agreement, in which event O-Net Holdings and Hong Kong Kaifa, each a Over-allotment Grantor, will be required to sell the number of Shares owned by them in proportion to their respective percentage of shareholding in us, namely, up to 15,230,817 Over-allotment Shares in respect of O-Net Holdings and 13,759,183 Over-allotment Shares in respect of Hong Kong Kaifa.

ASSUMPTION

The above table assumes that the Global Offering becomes unconditional and does not take into account any exercise of any options granted or to be granted under the Share Option Scheme referred to in the paragraph headed "Share Option Scheme" below or which may be issued or repurchased pursuant to the General Mandate referred to in the paragraph headed "General Mandate" below or the Repurchase Mandate referred to in the paragraph headed "Repurchase Mandate" below, as the case may be.

RANKING

The Offer Shares rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus except for any entitlement to the Capitalization Issue.

THE SHARE OPTION SCHEME

We have adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in the section entitled "Share Option Scheme" in Appendix VI to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Assuming the Global Offering becomes unconditional, the Directors have been granted a general mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding the Shares which may be allotted and issued upon the exercise of options to be granted under the Share Option Scheme); and

(b) the aggregate nominal value of share capital of our Company repurchased by our Company (if any).

Such mandate will expire:

- at the conclusion of the next annual general meeting of our Company;

- at the end of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association, or applicable laws of the Cayman Islands; or

- when revoked or varied by ordinary resolution of the Shareholders at a general meeting of our Company.

whichever occurs first.

For further details about this general mandate, please refer to the paragraph entitled "Resolutions of our Shareholders" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Assuming the Global Offering becomes unconditional, the Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (excluding the Shares which may be allotted and issued upon the exercise of options to be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the HKSE or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the HKSE for this purpose) and which are in accordance with all applicable laws and regulations. Such mandate will expire:

- at the conclusion of the next annual general meeting of our Company;
- at the end of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association, or applicable laws of the Cayman Islands; or
- when revoked or varied by ordinary resolution of the Shareholders at a general meeting of our Company.

For further details about this general mandate, please refer to the paragraph entitled "Proceedings at the Company's extraordinary general meeting" in Appendix VI to this prospectus.

You should read the following discussion and analysis in conjunction with our combined financial information set forth in the Accountants' Report included as Appendix I to this prospectus, and our selected historical combined financial information and operating data and the notes thereto included elsewhere in this prospectus. Our combined financial information has been prepared on the basis of presentation as set out in Note 2.1 of Section II of the Accountants' Report and in accordance with HKFRS under the historical cost convention.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements".

OVERVIEW

We are a leading supplier of passive optical networking subcomponents, components, modules and subsystems used in high-speed telecommunications and data communications networks. We have leading market positions in several key passive optical products including free space optical isolators, WDMs, EDFAs and VOAs. We design, manufacture and sell our products and develop solutions with our customers based upon their product needs and specifications. We have developed a business model including proprietary technology platforms and systems that caters to the needs of high-speed and intelligent optical networks. Our broad line of products expand optical bandwidth and redirect and amplify optical signals, as well as monitor and protect wavelength performance and assist signal transmission and reception across optical networks. Optical network system vendors use our products to increase the performance of optical networks and provide networks with flexible and scalable bandwidth to support increases of data traffic on the Internet and other public and private networks.

According to Infostone Communication Consultant (Shenzhen) Ltd., an independent market research firm based in China, during the three years ended 31 December 2007, 2008 and 2009, we were one of the top five global suppliers of passive optical components with a 3.9%, 4.0% and 5.1% market share, respectively. At the specific product level, for the year ended 31 December 2009, we were the leading global supplier of free space optical isolators for transmission applications with a 33.8% market share, and we were a top five global supplier of WDM products with a market share of 10.0%. For VOA and EDFA products, we were among the top 10 global suppliers, with a market share of 3.2% and 2.8%, respectively for the year ended 31 December 2009.

We believe we have accumulated strong core competencies in several technological platforms in our industry which have enabled, and will continue to enable, us to develop high performance and cost-competitive products and solutions to serve our customers. Particularly, in recent years we have launched a series of next-generation products targeted at fast-growing 40G and 100G applications such as DPSK, DQPSK and 40G EDFA, and tunable applications such as wavelength lockers, high-precision etalons and variable gain EDFAs. We are also in the process of developing highly-advanced next-generation products which we expect to be released to the market over the course of the next year.

We are headquartered in Shenzhen, China, where we manufacture our optical subcomponents, components, modules and subsystems at our facilities. Through internal research and development we have developed 40 series of products that we sell or integrate into our optical communications products. In addition to manufacturing individual products, we internally source many subcomponents and components for the production of our module and subsystem products. We have also internally developed our FIS which monitors the production and quality of our products. More details of how the FIS operates are set forth in the section headed "Business – Production Process" of this prospectus. These allow us to produce technically-advanced solutions to meet our customers' needs. We do this by integrating optical, electronic and firmware design and customization with optical precision processing and assembly, as well as passive, active, and waveguide packaging, optical coating, manufacturing processing and auto-testing. We work closely with our customers during the product design and development cycle, enabling us to timely respond to the volume production requirements of our customers.

We believe that our broad product offering, vertically-integrated business model and focus on high-bandwidth products for use in 10G and newer 40G networks give us a competitive advantage. Our customers include telecommunications and data communications network system vendors located around the world and their contract manufacturers. Our principal customers include leading telecommunications system vendors, such as Alcatel-Lucent and Huawei, as well as the contract manufacturers to Ciena and Infinera. The percentage of revenue contributed by Alcatel-Lucent, Huawei and these contract manufacturers was approximately 50.2%, 46.5% and 39.8% for the years ended 31 December 2007, 2008 and 2009, respectively. These customers in turn sell systems to telecommunications and data communications service providers and cable TV operators that increasingly require higher-bandwidth networks to support advanced telecommunications and data applications.

We were incorporated in 2000 as a joint-venture between Hong Kong Kaifa, a wholly-owned subsidiary of Shenzhen Kaifa, and Mandarin IT Fund I, a private equity fund established in 2000. Shortly after our incorporation we set up a wholly foreign owned subsidiary in China, O-Net Shenzhen. O-Net Shenzhen acquired all the assets of the fiber optics department of Shenzhen Kaifa in 2000.

We have five reportable segments: Power management (which includes our power amplifiers power attenuators and VMUX), Transmission management (which includes our optical isolators, wavelength lockers, DPSKs and DQPSKs and PBCs), Wavelength management (which includes our thin-film WDMs, OADM and interleavers), Signal conditioning and monitoring (which includes our tap-PD monitor arrays, OCM and OPM modules, TDC devices and modules) and others (which includes our FTTH, cable television and subcomponent products). The following table shows our revenue by segment for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue						
Power management	77,201	33.6	109,866	38.6	128,568	38.0
Transmission management	53,843	23.4	73,251	25.7	114,104	33.7
Wavelength management	86,156	37.5	83,474	29.3	75,786	22.4
Signal conditioning and monitoring management	5,627	2.4	6,461	2.3	6,183	1.8
Others	6,876	3.1	11,586	4.1	13,744	4.1
Total	229,703	100	284,638	100	338,385	100

The following table sets out our revenue generated from sales in the PRC, Europe, North America and Asia (excluding the PRC) for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
The PRC	61,640	26.8	97,525	34.3	165,697	49.0
Europe	83,597	36.4	77,972	27.4	61,025	18.0
North America	23,362	10.2	79,297	27.9	40,587	12.0
Asia (excluding the PRC)	61,104	26.6	29,844	10.4	71,076	21.0
Total	229,703	100	284,638	100	338,385	100

Our revenues increased 47.3% from HK$229.7 million in 2007 to HK$338.4 million in 2009 as a result of new product launches and customer additions.

The growth in our revenue from 2007 to 2009 resulted primarily from revenue growth in our power management and transmission management segments. The relative contribution of three of our principal product segments changed over this period, with the percentage of revenues contributed by our power management and transmission management segments increasing from 33.6% and 23.4%, respectively, in 2007 to 38.0% and 33.7%, respectively, in 2009, and the percentage of revenues contributed by our wavelength management segment decreasing from 37.5% in 2007 to 22.4% in 2009.

In our power management segment, revenue growth was primarily due to an increase in demand for our EDFAs and VOAs from both existing and new customers as we won more design-in opportunities. In our transmission management segment, revenue growth was driven primarily by the volume delivery of new products such as wavelength lockers and increasing sales of our optical isolator products to existing customers which we believe was primarily due to the increasing global deployment of PON networks, in which our optical isolators are an integral part, and the volume delivery of new products such as wavelength lockers. Revenue in our wavelength management segment declined from 2007 to 2009. Such decline was primarily due to a large amount of demand for CWDM products from the South Korean market as one major telecommunications carrier kicked off a metro-network project using CWDM products in 2007, which subsequently declined significantly in 2008 and 2009 as the South Korean project demanded fewer such products. By 2009, the South Korean project using CWDM products neared completion. In addition, the rapid price decline of our WDM products, due to customers's choice of lower-channel count products, also contributed to the revenue decline in this category, partially offset by increasing demand from two customers in China.

Our revenues from sales in the PRC increased 168.8%, from HK$61.6 million in 2007 to HK$165.7 million in 2009, primarily due to many of our overseas customers successfully transferring their manufacturing operations to China or outsourcing to their manufacturing partners in China, and an increasing number of new customers in China.

In the three years ended 31 December 2007, 2008 and 2009, we generated 26.8%, 34.3% and 49.0% of our revenues, respectively, from sales in the PRC.

Our revenues were HK$338.4 million in the year ended 31 December 2009. During this period, as compared to the year ended 31 December 2008, our revenues from sales in the PRC as a percentage of revenues continued to grow. The relative contribution of our transmission management segment continued to increase, the relative contribution of our power management segment remained substantially the same and the relative contribution of our wavelength management segment continued to decline.

Our gross profit margin differs among our product lines. The following table sets out our gross profit and gross profit margin by operating segments for the years indicated.

	For the year ended 31 December					
	2007		2008		2009	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Power management	27,085	35.1	39,418	35.9	55,324	43.0
Transmission management	24,539	45.6	30,919	42.2	57,966	50.8
Wavelength management	38,946	45.2	32,583	39.0	37,305	49.2
Signal conditioning and monitoring management	1,686	30.0	764	11.8	2,827	45.7
Other	1,733	25.2	3,069	26.5	(174)	(1.3)
Total	93,989	40.9	106,753	37.5	153,248	45.3

An analysis of the changes in our gross profit and gross profit margin by operating segments is set forth below under the subsection headed "Comparison of Results of Operations – Gross Profit and Gross Profit Margin" in this section for each applicable year to year comparison.

Our industry is characterized by intense competition and general declines in selling price for some products over time, which may affect our gross profit margin. Our strategy for responding to the effects of such competitive and pricing pressures includes continuous improvement of the cost structure of existing products, and launching new products that can generate higher profit margins. We also intend to work to reduce our unit costs of sales through further production, supply chain and management efficiencies.

RECENT DEVELOPMENTS

We completed the Reorganization on 29 March 2010. Pursuant to the Reorganization, O-Net Cayman effected a distribution in specie such that the shareholders of O-Net Cayman became direct Shareholders in proportion to their existing shareholding in O-Net Cayman. Accordingly, following the Global Offering and assuming the Over-allotment Option is not exercised, 38.19% of our issued capital will be owned by O-Net Holdings, 34.50% of our issued capital will be owned by Hong Kong Kaifa and the remaining 27.31% of our issued capital will be held by minority Shareholders.

FACTORS AFFECTING RESULTS OF OPERATIONS

We believe that our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by a number of factors and uncertainties, including:

Market demand and the development of the optical networking industry

Our results of operations are directly affected by our revenue which primarily depends on the market demand and the capital spending by network operators. Market demand is affected by factors including the demand for our optical networking subcomponents, components, modules and subsystems, the demand for our customers' products and services, the success of our customers' business, the outsourcing needs of our customers and the general condition of the optical networking industry and the telecommunications and data communications network industries. Our business relies on a limited number of customers for a significant portion of our total revenue. Accordingly, changes in the businesses, infrastructure and capital spending plans by network operators supplied and serviced by our customers may have a direct impact on our results of operations. Capital spending by network operators is influenced by a variety of factors, including the evolution and consolidation of the industry, and the intensity of competition in the industry. The general economic environment in which our industry operates will also affect the demand for our products. For example, the current global market fluctuations and recent economic downturn may materially and adversely affect our business, financial condition and results of operations. During the Track Record Period, our sales volume was influenced by an increase of purchase orders because we are able to provide a wide range of products and customized services to meet the needs of our customers.

Competition in the optical networking industry

We operate in a highly competitive industry and may not be able to compete successfully against current or potential competitors. Our principal competitors include the major global manufacturers of optical subcomponents, components, modules and subsystems. These companies may have substantially greater financial, engineering and manufacturing resources as well as greater name recognition and stronger customer relationships than we do. In addition, our industry has recently experienced consolidation, and we anticipate that further consolidation will occur. This consolidation has increased, and will likely continue to increase, competition in our industry. As competition increases, maintaining or further increasing our profitability and our market share will depend on our ability to differentiate ourselves from our competitors in terms of the quality and features of our products and services and to achieve cost savings in production and sales.

Prices of our products

The prices for our optical networking subcomponents, components, modules and subsystems are in part influenced by the average selling price for comparable products available in the market. The average selling price for a particular product is typically highest when it is first introduced and then declines over time as our customers qualify additional suppliers of comparable products. Another factor affecting the initial average selling price and subsequent average selling price decline for a particular product is the demand for the product, which may be affected by the particular functions, features and quality requirements of the product.

We do not have long-term purchase contracts with our customers that can provide us with assurance on our sales volume and price. We typically hold price negotiations with customers at the end of each year for the following year's price, however some customers request negotiations every six months, three months or more often. As a result, the average selling price we are able to secure may vary from period to period depending on the results of negotiations with our customers and, as a result, we generally do not have price assurance on future sales.

Competition in the optical networking industry has contributed to substantial price-driven competition. As a result, sales prices for some of the products we produce have decreased over time at varying rates. The rapid emergence of new technologies and the evolution of technical standards can greatly diminish the value of products relying on older technologies and standards and exacerbate price pressure. In addition, the current economic and industry environment in the telecommunications sector has resulted in pressure to reduce prices for our products, and we expect pricing pressure to continue for the foreseeable future, which may adversely affect our operating results.

The following table sets forth the average price and quantity of our major products sold during the periods indicated.

	For the year ended 31 December					
	2007		**2008**		**2009**	
	Average Price	*Quantity (pieces)*	*Average Price*	*Quantity (pieces)*	*Average Price*	*Quantity (pieces)*
Free space isolator	US$16.08	532,563	US$14.08	746,343	US$12.35	1,218,237
WDM*	US$398.14	128,820	US$304.67	116,740	US$167.51	161,463
EDFA	US$2,567.00	4,207	US$2,350.71	6,236	US$2,800.23	5,722
VOA**	US$155.93	29	US$269.99	1,035	US$272.55	32,527

* WDM price is the average price for 1 channel module to 40 channel modules.
** VOA price is the average price for 1 channel module to 10 channel modules.

Our products, such as WDMs, EDFAs and VOAs all are used to increase network transmission speed and quality. The type of products needed in an optical network depends on the type of system in which our products are used. There is not a direct relationship between sales of our different product types.

Free space isolator

The average price for the year ended 31 December 2009 was US$12.35, a decrease of US$1.73, or approximately 12.3%, from US$14.08 for the year ended 31 December 2008. The decrease was primarily attributable to price reductions we offered to our customers, partially offset by the introduction of higher priced products.

The average price for the year ended 31 December 2008 was US$14.08, a decrease of US$2.00, or approximately 12.4%, from US$16.08 for the year ended 31 December 2007. The decrease was primarily attributable to price concessions we offered to our customers.

The quantity sold for the year ended 31 December 2009 was approximately 1.2 million pieces, an increase of approximately 0.5 million pieces, or approximately 71.4%, from approximately 0.7 million pieces sold for the year ended 31 December 2008. The increase was primarily attributable to increasing demand for our optical isolators from existing customers in China. Our optical isolators are a critical part of PON transceivers, of which demand grew significantly driven by the rapid buildout of PON networks globally.

The quantity sold for the year ended 31 December 2008 was approximately 0.7 million pieces, an increase of approximately 0.2 million pieces, or approximately 40.0%, from approximately 0.5 million pieces for the year ended 31 December 2007. The increase was primarily attributable to volume supply of new products qualified by our transceiver customers in China.

WDM

The average price for the year ended 31 December 2009 was US$167.51, a decrease of US$137.16, or approximately 45.0%, from US$304.67 as of 31 December 2008. The decrease was primarily attributable to the increase in sales of low channel WDM products which have much lower unit prices.

The average price for the year ended 31 December 2008 was US$304.67, a decrease of US$93.47, or approximately 23.5%, from US$398.14 for the year ended 31 December 2007. The decrease was primarily attributable to more customers choosing to use lower channel count products which have a relatively lower price.

The quantity sold for the year ended 31 December 2009 was approximately 0.17 million pieces, an increase of approximately 0.05 million pieces, or approximately 41.7%, from approximately 0.12 million pieces for the year ended 31 December 2008. The increase was primarily attributable to volume supply of WDM products to two customers in China, offset partially by the decline of demand in South Korea.

The quantity sold for the year ended 31 December 2008 was approximately 0.12 million pieces, a decrease of approximately 0.01 million pieces, or 7.7%, from approximately 0.13 million pieces for the year ended 31 December 2007. The decrease was primarily attributable to a decline in sales of CWDM products to certain customers overseas particularly in the South Korea market, partially offset by increasing sales of DWDM products in China and overseas as we gain design-wins from these customers.

EDFA

The average price for the year ended 31 December 2009 was US$2,800.23, an increase of US$449.52, or approximately 19.1%, from US$2,350.71 for the year ended 31 December 2008. The increase was primarily attributable to more customers choosing to use more high end EDFA products which allows us to charge higher price.

The average price for the year ended 31 December 2008 was US$2,350.71, a decrease of US$216.29, or approximately 8.4%, from US$2,567.00 for the year ended 31 December 2007.

The decrease was primarily attributable to the customary annual price concession we offered to our existing customers on our existing products.

The quantity sold for the year ended 31 December 2009 was 5,722 pieces, a decrease of 514 pieces, or approximately 8.2%, from 6,236 pieces for the year ended 31 December 2008. The decrease was primarily attributable to slower demand for EDFA products from a few overseas customers which we believe is due to slow demand for systems using EDFA products.

The quantity sold for the year ended 31 December 2008 was 6,236 pieces, an increase of 2,029 pieces, or approximately 48.2%, from 4,207 pieces for the year ended 31 December 2007. The increase was primarily attributable to volume shipments of previously qualified EDFA products to existing customers and their contract manufacturers as these customers had growing demand for systems using EDFA products.

VOA

The average price for the year ended 31 December 2009 was US$272.55, an increase of US$2.56, or approximately 0.9%, from US$269.99 for the year ended 31 December 2008. The increase was primarily attributable to more customers choosing to use more high channel count VOA products which allowed us to charge a higher price, offset partially by price concessions we offered each year.

The average price for the year ended 31 December 2008 was US$269.99, an increase of US$114.06, or approximately 73.1%, from US$155.93 for the year ended 31 December 2007. The increase was primarily attributable to more customers choosing to use more high channel count VOA products which allowed us to charge a higher price, offset partially by price concessions we offered each year.

The quantity sold for the year ended 31 December 2009 was 32,527 pieces, an increase of 31,492 pieces, or approximately 3,042.7%, from 1,035 pieces sold for the year ended 31 December 2008. The increase was primarily attributable to growth of VOA components sales to customers in China as we successfully gained a larger share of these customers while their business was growing.

The quantity sold for the year ended 31 December 2008 was 1,035 pieces, an increase of 1,006 pieces, or approximately 3,469.0%, from 29 pieces sold for the year ended 31 December 2007. The increase was primarily attributable to volume shipments of previously qualified VOA products to existing customers and their contract manufacturers as these customers had growing demand for systems using VOA products.

Diverse product portfolio

We have 40 series of products that we sell or vertically integrate into our optical communications products. We believe that our product portfolio helps us diversify our risks by ensuring that our results are not overly dependent on the performance of specific segments or products within those segments. For example, from 2007 to 2008, our wavelength management products had a revenue decline of HK$2.7 million, however, our transmission products and power management products had revenue increases of HK$19.4 million and HK$32.7 million, respectively, more than offsetting the decline of wavelength management products for the same period. In addition, our broad range of products and the customized services enables us to meet our customers' product designs and specifications. In each of our product segments, we sell specific products for a period of time before our customers introduce new or updated systems that require new or updated products from us. During this product life cycle, the price of a product typically declines as our customers qualify suppliers of competing products with similar functionality. We believe our continued success will depend on our ability to maintain a broad range of leading products and introduce new products that meet the evolving needs of our customers.

Availability of raw materials and components supplies

Historically, costs of raw materials and components procured from our suppliers represented a dominant component of our costs of sales. During the Track Record Period, we in general did not enter into any long-term purchase agreements with our major suppliers and the price of raw materials was determined on a purchase order basis. The price of a particular product for a customer, which is subject to negotiation on a periodic basis, may decline over time and the profit margin will decline correspondingly if the cost of raw materials for such product remains unchanged. Furthermore, certain components are specifically designed for use in our production process or to meet the specifications required by our customers, and are generally obtained from a limited number of qualified suppliers. Our production capacity depends in part on the ability of these qualified suppliers to supply the necessary raw materials and components timely.

Growth in operations in China

Our future growth is increasingly dependent on our success in maintaining and promoting business relationships with customers in China. In the three years ended 31 December 2009, the proportion of our revenues attributable to sales derived from customers in China was 26.8%, 34.3% and 49.0%, respectively. Such increases were primarily due to the fact that more and more customers are successfully moving their manufacturing base or outsourcing to their manufacturing partners in China, and our new customer additions in China. We plan to expand our customer base and market share in China and continue to strengthen our market positions in North America, Europe and the other Asian countries. As our operations in emerging markets expand, our results will be increasingly affected by political, economic, legal and other factors in these markets. To accommodate our business expansion plan, we acquired approximately 38,000 square meters of land in Pingshan New District, Shenzhen City, China in 2007 on which we plan to construct a new manufacturing facility and dormitories to be occupied by our workers.

Income tax expense

On 16 March 2007, the National People's Congress enacted the EIT Law, under which most domestic enterprises and foreign invested enterprises would be subject to a single income tax rate of 25%. The EIT Law became effective on 1 January 2008, when the Foreign-Invested Enterprise Income Tax Law and the Enterprise Income Tax Provisional Regulations of the PRC expired. In December 2007, the State Council promulgated the Implementation Regulations of PRC EIT Law, or the EIT Implementation Regulation, which also became effective on 1 January 2008. Under the EIT Law, those enterprises established prior to 16 March 2007 are qualified to continue to enjoy any then existing preferential tax treatments. For qualified enterprises that enjoyed preferential tax treatments at the time of enactment of the EIT Law, such treatments will continue for five years commencing from the start of such treatments. For other qualified enterprises, all preferential tax treatments began on 1 January 2008.

Our PRC subsidiary, O-Net Shenzhen, has enjoyed certain preferential tax treatments during the Track Record Period; during the Track Record Period, the generally applicable tax rate has changed and it has been 25% since the EIT Law took effect. According to the previous tax regulations that had expired when the EIT Law took effect, O-Net Shenzhen, as a FIE with an operating term of more than ten years, was exempt from the income tax for two years starting from the first year that it began to make profit, namely the two years ended 31 December 2007, and is entitled to a 50% reduction in the income tax rate for the three years thereafter, namely 2008, 2009 and 2010. According to the EIT Law, O-Net Shenzhen has continued to enjoy such preferential tax treatments since the EIT Law took effect on 1 January 2008.

In addition, O-Net Shenzhen is a FIE located in Shenzhen, one of the Special Economic Zones of the PRC, and therefore enjoyed a preferential income tax rate of 15% before the EIT Law took effect. According to the EIT Law and the Notice on the Policy of Enforcing Transitional Preferential Treatment of Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) promulgated on 26 December 2007 by the State Council, O-Net Shenzhen is subject to an income tax rate of 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and every year thereafter unless it is also entitled to other preferential tax treatments.

Meanwhile, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It would be entitled to a concessionary income tax rate of 15%. Given that adopting the applicable transitional income tax rates and the "2-year exemption and 3-year half payment" is more preferential and beneficial to O-Net Shenzhen, the income tax rate applicable to O-Net Shenzhen is 15% for 2007, 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and every year thereafter unless it will be entitled to other tax incentives. After offsetting all unexpired tax losses carried forward from previous years, the "2-year exemption and 3-year half payment" tax preferential period started from 2006 which is the first profit making year of O-Net Shenzhen. According to a confirmation issued by Shenzhen Nanshan Local Tax Authority (深圳市南山區地方稅務局) dated 10 March 2010, our first year of profit making was 2006 and we started to enjoy our two years of full tax exemption in 2006. Therefore, O-Net Shenzhen was exempt from income tax in 2006 and 2007. From 2008 to 2010, O-Net Shenzhen will be entitled to a 50% reduction of the income tax. The income tax rate for 2011 is 24%, and beginning in 2012, O-Net Shenzhen will be subject to the regular income tax rate of 25% unless O-Net Shenzhen can be qualified as a High Technology

Enterprise with priority support by the state government (as O-Net Shenzhen currently is), in which event O-Net Shenzhen will be subject to a preferential tax rate of 15%. As at the Latest Practicable Date, O-Net Shenzhen had an outstanding enterprise income tax of approximately RMB1.3 million for the year 2008 as result of an issue of confirmation from the Shenzhen Nanshan Local Tax Authority (深圳市南山區地方稅務局) dated 10 March 2010 stating a change in the first year of profit-making of O-Net Shenzhen. According to the Law of PRC Concerning the Administration of Tax Collection (中華人民共和國稅收徵收管理法), any enterprise not paying the enterprise income tax in the specified period is subject to a daily 0.05% surcharge unless otherwise provided. We will pay such outstanding enterprise income tax in respect to O-Net Shenzhen and we understand that it is customary for the relevant tax bureau to confirm the amount of surcharge, if any, nearer the time of payment. As at the Latest Practicable Date, we have not received any notification regarding the imposition of or demand for such tax and related surcharges (if any).

BASIS OF PRESENTATION

Mandarin IT Fund I, Mariscal Limited, O-Net Employee Plan Limited, Mr. Na Qinglin and Mr. Xue Yahong as a group and Hong Kong Kaifa owned and controlled our Group before the Reorganization and continued to hold controlling interests in our Group after the Reorganization. Please see the section headed "History and Development" in this prospectus for details. The Reorganization is considered as a business combination under common control in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants. The financial information includes the combined financial position, results and cash flows of the companies now comprising our Group as if the existing group structure had been in existence throughout the Track Record Period or since the respective dates of incorporation/establishment or acquisition, whichever is the shorter period. Prior to the incorporation of the Company, O-Net Cayman engaged in both the business described in the section headed "Business" in this prospectus (the "Listing Business") and the design, manufacturing and sale of synthetic crystal, new-style flat display parts and digital cable system television equipment (the "Other Business"). The Other Business has been run by subsidiaries of O-Net Cayman which are not among the companies now comprising our Group. Our Directors have confirmed that the Other Business is dissimilar to the Listing Business and has been managed separately from the Listing Business and separate accounting books and records were kept for the Other Business throughout the Track Record Period. The Directors consider it appropriate to exclude the financial information of the Other Business from our combined financial information during the Track Record Period. In addition, since the companies now comprising our Group have never operated the Other Business and the Other Business is kept by O-Net Cayman before and after the Reorganization, no discontinued operations (as defined under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the Hong Kong Institute of Certified Public Accountants) existed.

Our combined financial information has been prepared in accordance with HKFRS under the historical cost convention. The preparation of our combined financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires our management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are discussed below.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial information requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, turnover and expenses, and related disclosures of contingent assts and liabilities. Critical accounting policies are the accounting policies that are the most important to the portrayal and understanding of our financial condition and/or results of operations and require our management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments.

We base our estimates on historical experience and assumptions, which we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our management believes the following accounting policies are critical to the portrayal and understanding of our financial condition and results of operations and/or involve the most significant judgments and estimates used in the preparation of our financial information.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products in the ordinary course of our activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating inter-group sales.

We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to us and specific criteria have been met for each of our activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods are recognized when the risk and rewards of the goods have been transferred to the customer and collectability of the related receivables is reasonably assured.

Interest income is recognized on a time-proportion basis using the effective interest method.

Research and Development Costs

Research expenditure is recognized as an expense as incurred. We capitalize development costs and recognize such costs as intangible assets when it is technically feasible to complete the intangible asset so that it will be available for use or sale; the management intends to complete the intangible asset and use or sell it; there is an ability to use or sell the intangible asset; it can be demonstrated how the intangible asset will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and the expenditure attributable to the intangible asset during its development can be reliably measured. Development costs that qualify for capitalization are then stated at cost less any impairment losses and are amortized from the point the asset is ready for use on a straight-line basis over the estimated useful life of the asset not exceeding five years. During the development stages, management must estimate the technical feasibility of these projects and the commercial lives of the underlying products. Should a product fail to substantiate its commercial value or expected life cycle, we may be required to write off the excess amount of deferred development costs and increase amortization in future periods. Development assets are tested for impairment annually. We have the option to expense development costs that would otherwise qualify for capitalization.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. We have expensed, and not capitalized, all of our development costs in the Track Record Period.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined based on a weighted average basis and, in the case of work in progress and finished goods, comprises raw materials, direct labor and a related proportion of production overhead expenses (based on normal operating capacity). Net realizable value is based on estimated selling prices in the ordinary course of business, less applicable variable selling expenses. We annually review our inventories for slow moving inventory, obsolescence or declines in market value. This review requires management to estimate the net realizable value based upon assumptions about future demand and market conditions. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realized.

If our estimate of net realizable value is below the cost of inventory, we record a provision against the inventories for the difference between cost and net realizable value, which will result in a corresponding increase in our cost of sales. If actual market conditions are less favorable than those projected by management, additional inventory provisions may be required. Conversely, if we subsequently realize amounts greater than our estimate of net realizable value, we record a reversal of the corresponding provision in cost of sales, causing our profit margins to be higher in the period of the reversal than would have been the case had the reversal not been made.

Our cost of sales has included inventory provisions of HK$0.64 million, nil and HK$0.98 million respectively, for the three years ended 31 December 2007, 2008 and 2009.

We consider our existing policy for inventory provision to be adequate because we generally procure raw materials according to our production schedule based on customer purchase orders we have received and we adjust our provisions by taking stock of our inventory and conducting write offs and disposals on an annual basis.

Provision for Bad and Doubtful Debts

We maintain a provision for bad and doubtful debts and for estimated losses resulting from and the subsequent inability of our customers to make required payments. A provision for impairment of trade receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivable in question. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

For each balance sheet date, we determine the amount of the provision as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the combined income statements. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the combined income statement.

Increases in this provision from period to period are recorded as an expense (classified as an impairment charge for bad and doubtful debts) and included in administrative expenses. Trade receivables are shown on our balance sheet net of the provision.

If the financial conditions of our customers were to deteriorate, resulting in impairment in their ability to make payments, additional provisions may be required, which will result in a corresponding charge in our other operating income/expenses. Management specifically analyzes the collectability of individual accounts, historical bad debt, customer creditworthiness, current economic trends and changes in customer payment terms in evaluating the adequacy of the provision for bad and doubtful debts.

Our principal customers in the PRC and in our international markets are established telecommunications and data communications network system vendors and their contract manufacturers which we believe have reliable credit standing. Taking into account the creditworthiness of our customers, our credit risk control measures and the historical levels of our bad debts, we consider our existing policy of provisioning for bad debts to be adequate.

Income Taxes and Deferred Taxation

Our subsidiary that operates in the PRC is subject to EIT in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

We recognize deferred tax assets relating to certain temporary differences and tax losses when management considers it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

Share-based Compensation Expenses

We have granted share options to our employees, directors and sales distributors to subscribe for shares of O-Net Cayman/O-Net Holdings pursuant to a share option plan as set out in section headed "History and Development – Options Granted by O-Net Employee Plan Limited to Certain Employees" of this prospectus. The exercise price of all the option grants is zero, and certain of these options granted are only exercisable upon an effective initial public offering of Shares of the Company.

The fair values of these options are determined with reference to the fair value of the Listing Business and are ascertained by our Directors by using the discounted cash flows, after applying an appropriate marketability discount. Significant judgement on various parameters adopted in the compilation and estimation of the discounted cash flow, such as profit projections, discount rate, risk-free interest rate, and volatility, is required to be made by our Directors.

In addition, for options which are only exercisable upon an initial public offering, our Directors are required to estimate an expected initial public offering date upon the respective option grants in order to determine the vesting period of the options and the related amortization of share-based payment expenses to be recognized in each accounting period. Such estimates have to be revised at the end of each accounting period by our Directors, with necessary true-up be reflected in the financial statements when there is a change.

As at 31 December 2009, the estimated initial public offering date of all outstanding options granted, which are exercisable upon an initial public offering of the Company, had been assumed to be on 30 April 2010. Should the actual initial public offering date of the Company differ from 30 April 2010, revisions to share based payment expenses would be required to be reflected in subsequent financial statements.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax, returns, rebates and discounts and after eliminating inter-group sales. All of our revenue is generated from the sale of optical networking subcomponents, components, modules and subsystems.

Cost of Sales

Our cost of sales includes purchases of raw materials, a portion of depreciation and amortization, a portion of utilities charges, a portion of staff costs, operating lease rental and other manufacturing and packaging materials.

Gross Profit and Gross Profit Margin

Our gross profit is equal to revenue less cost of sales. Our gross profit margin is equal to gross profit divided by revenue.

Net of Other Gains

Other gains are mainly comprised of government grants, gain (loss) on sales of scrapped or surplus raw materials and gain (loss) on disposals of property, plant and equipment.

Selling and Marketing Costs

Selling and marketing costs consist primarily of staff costs of sales and marketing personnel (including share option expenses), sales commission, travelling expenses, advertising costs and amortization and depreciation attributable to sales and distribution.

Research and Development Expenses

Research and development expenses consist primarily of staff costs of research and development personnel (including share option expenses), depreciation, inventories consumed in research and development, operating lease rental, travel expenses and utilities charges.

Administrative Expenses

Administrative expenses consist primarily of staff costs of administrative personnel (including share option expenses), utility charges, other professional expenses and amortization and depreciation attributable to the administrative function.

Net of Finance Costs

Our finance costs and income include interest expense on bank loans net of bank interest income and exchange gains and losses.

Income Tax Expenses

Our current income tax expense consists of the Hong Kong profits tax and the EIT.

Our Hong Kong profits applicable tax rate for the years ended 31 December 2007, 2008 and 2009 was 17.5%, 16.5% and 16.5% respectively. O-Net Hong Kong reported cumulative tax losses and was not subject to Hong Kong profits tax for the two years ended 31 December 2008. Hong Kong profits tax was provided for on the estimated assessable profit of O-Net Hong Kong for the year ended 31 December 2009. O-Net Shenzhen was not subject to Hong Kong profits tax as it carries on business in Shenzhen, China.

EIT is provided on the assessable income of the companies now comprising our Group derived from the PRC, adjusted for those which are not assessable or deductible for the EIT purpose.

As mentioned in the subsection headed "Factors affecting results of operations" above, the income tax rate applicable to O-Net Shenzhen is 15% for 2007, 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and every year thereafter unless it will be entitled to other tax incentives. Given that 2006 was the first profit making year of O-Net Shenzhen, after offsetting all unexpired tax losses carried forward from previous years, the "2-year exemption and 3-year half payment" tax preferential period began in 2006. Therefore, O-Net Shenzhen was not subject to income tax in 2006 and 2007. From 2008 to 2010, O-Net Shenzhen will be entitled to a 50% reduction of the income tax.

Net Profit and Net Profit Margin

Our net profit is equal to gross profit less the sum of the net amount of other gains and losses, selling and marking costs, research and development expenses, administrative expenses, the net amount of finance income and costs, and the income tax expenses. Our net profit margin is equal to net profit divided by revenue.

CERTAIN FINANCIAL RATIOS

The tables below set forth certain financial ratios as at the dates indicated.

	As at 31 December		
	2007	**2008**	**2009**
Current ratio(1)	1.1	1.3	1.9
Debt-to-equity ratio(2)	100.4%	31.5%	3.9%
Quick ratio(3)	0.8	0.9	1.5

	Year ended 31 December		
	2007	**2008**	**2009**
Return on assets(4)	9.3%	9.7%	28.8%
Return on equity(5)	27.6%	24.9%	53.7%

Notes:

(1) Current ratio is calculated by dividing the total current assets by the total current liabilities.

(2) Debt-to-equity ratio is calculated by dividing the net debt by the total owners' equity. Net debts are defined to include all borrowings and payable incurred not in the ordinary course of business net of cash and cash equivalents.

(3) Quick ratio is calculated by dividing the total current assets minus inventory by the total current liabilities.

(4) Return on assets equals net profit for each year divided by the average balance of total assets as at the beginning of each year and as at the end of each year.

(5) Return on equity equals net profit for each year divided by the average balance of total equity as at the beginning of each year and as at the end of each year.

Current Ratio

As at 31 December 2007, 2008 and 2009, our current ratio was approximately 1.1, 1.3 and 1.9, respectively. The increase in our current ratio from 1.1 as at 31 December 2007 to 1.3 as at 31 December 2008 was primarily due to increases in trade and other receivables, and cash and cash equivalents, and a decrease in borrowings, which resulted from repayment of borrowings utilizing operating profits, partially offset by a decrease in pledged bank deposits, which resulted from the repayment of bank loans in 2008. The increase in the current ratio from 1.3 as at 31 December 2008 to 1.9 as at 31 December 2009 was primarily due to an increase in trade and other receivables resulting from a significant sales increase in the last three quarters of 2009, partially offset by an increase in trade payables resulting from increased purchases of raw materials to support increased sales in the last three quarters of 2009. Please see the subsection headed “Liquidity and Capital Resources” in this section for further details regarding our liquidity.

Debt-to-equity Ratio

As at 31 December 2007, 2008 and 2009, our debt-to-equity ratio was approximately 100.4%, 31.5%, and 3.9%, respectively. The significant decrease in our debt-to-equity ratio from 100.4% as at 31 December 2007 to 31.5% as at 31 December 2008 was primarily due to an increase in owners’ equity from HK$78.2 million to HK$106.6 million for the year ended 31 December 2008 as a result of retained profits derived from our operations and a decrease in the net debts balance due to an improvement of our balances of cash and cash equivalents from HK$12.0 million as at 31 December 2007 to HK$23.0 million as at 31 December 2008, as well as net repayment of bank borrowings of HK$35.8 million for the year ended 31 December 2008. The decrease in our debt-to-equity ratio from 31.5% as at 31 December 2008 to 3.9% as at 31 December 2009 was primarily due to an increase in owners’ equity from HK$106.6 million as at 31 December 2008 to HK$188.4 million as at 31 December 2009 as a result of retained profits derived from our operations and a decrease in the net debts balance due to repayment in full of bank borrowings of HK$22.7 million in 2009 using a portion of profits derived from our operations, as well as an improvement of our balances of cash and cash equivalents from HK$23.0 million as at 31 December 2008 to HK$26.5 million as at 31 December 2009, which resulted from an increase in cash from operating activities, partially attributable to significant sales increases in the last three quarters of 2009 and increased product demand, partially offset by cash used to repay bank loans.

Quick Ratio

As at 31 December 2007, 2008 and 2009, our quick ratio was approximately 0.8, 0.9 and 1.5, respectively. The quick ratio remained relatively stable between 31 December 2007 and 31 December 2008, and increased to 1.5 as at 31 December 2009, primarily due to a 91.1% increase in trade and other receivables from HK$88.7 million as at 31 December 2008 to HK$169.5 million as at 31 December 2009 due to increasing sales in the last three quarters of 2009, which resulted from growing demand for our products and the improvement in global economic conditions, partially offset by a net increase in current liabilities as a result of an increase in trade and other payables from HK$95.5 million as at 31 December 2008 to HK$123.0 million as at 31 December 2009, which was primarily attributable to increased purchases of raw materials necessary to support growing demand and an increase in current income tax liability of HK$9.2 million from 31 December 2008 to 31 December 2009, which was resulted from increasing sales for the year ended 31 December 2009 and change of enacted income tax rate of O-Net Shenzhen from 9% for the year ended 31 December 2008 to 10% for the year ended 31 December 2009, offset by a reduction of bank borrowings to nil as at 31 December 2009.

Return on Assets

For the years ended 31 December 2007, 2008 and 2009, our return on assets was 9.3%, 9.7% and 28.8%, respectively. The increase in return on assets from 9.3% in 2007 to 9.7% in 2008 was primarily attributable to an increase of 13.3% in net profit and partially offset by an increase of 8.5% in our average balance of total assets. The increase in net profit resulted primarily from the increases in revenue and gross profit driven by an increase in power and transmission management products, offset partially by a decline in wavelength management products. The increase in the average balance of total assets was primarily due to an increase in land use rights as a result of the purchase of land we made in 2007. The increase in our return on assets from 9.7% in 2008 to 28.8% in 2009 was mainly due to a 244.2% increase in net profit, which resulted from an increase in revenue and gross profit, which was primarily attributable to improvements in scale economy, the launch of higher margin products and growth in the transmission management product segment, partially offset by a 16.0% increase in the average balance of total assets, which resulted primarily from the increase in trade and other receivables and cash and cash equivalents as a result of increasing business scale, offset partially by the reduction of pledged bank deposits as we paid down debt in 2008. Please see the subsection headed "Results of Operations" in this section for further details on our profitability.

Return on Equity

For the years ended 31 December 2007, 2008 and 2009, our return on equity was 27.6%, 24.9% and 53.7%, respectively. The slight decrease in return on equity from the year ended 31 December 2007 to the year ended 31 December 2008 was primarily attributable to increases of 25.8% in our average balance of total equity, which primarily resulted from the contribution of net profit in 2008, offset partially by the increase in net profit of 13.3%. The increase in the return on equity from the year ended 31 December 2008 to the year ended 31 December 2009 was primarily attributable to a 244.2% increase in net profit, which resulted from an increase in gross profit, which was primarily attributable to improvements in scale economy, the launch of higher margin products and growth in the transmission management product segment, as compared to a 59.7% increase in the average balance of total equity, which resulted from increased income in 2009. Please see the subsection headed "Results of Operations" in this section for further details on our profitability.

RESULTS OF OPERATIONS

The following table sets forth our results of operations and percentage of revenue for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue	229,703	100	284,638	100	338,385	100
Cost of sales	(135,714)	(59.1)	(177,885)	(62.5)	(185,137)	(54.7)
Gross profit	93,989	40.9	106,753	37.5	153,248	45.3
Other gains – net	228	0.1	1,171	0.4	2,065	0.6
Selling and marketing costs	(17,413)	(7.6)	(18,836)	(6.6)	(17,436)	(5.1)
Research and development expenses	(18,258)	(7.9)	(21,027)	(7.4)	(16,875)	(5.0)
Administrative expenses	(32,891)	(14.3)	(36,352)	(12.8)	(31,445)	(9.3)
Operating profit	25,655	11.2	31,709	11.1	89,557	26.5
Finance income	314	0.1	132	0.1	44	0.0
Finance costs	(5,138)	(2.2)	(6,990)	(2.5)	(1,094)	(0.3)
Finance costs – net *(Note 1)*	(4,824)	(2.1)	(6,858)	(2.4)	(1,050)	(0.3)
Profit before income tax	20,831	9.1	24,851	8.7	88,507	26.2
Income tax expenses	(531)	(0.3)	(1,854)	(0.6)	(9,347)	(2.8)
Profit for the year attributable to equity holders of the Company	20,300	8.8	22,997	8.1	79,160	23.4
Earnings per share for profit attributable to equity holders of the Company – Basic and diluted *(Note 2)*	N/A		N/A		N/A	

Note 1: We incurred an exchange loss of approximately HK$4.9 million, HK$5.9 million and HK$0.6 million during the years ended 31 December 2007, 2008 and 2009, respectively. For further details, please refer to the subsection headed "Foreign Exchange Rate Risk" in this section below.

Note 2: No earnings per share information is presented, as its inclusion for the purpose of the Accountants' Report set out in Appendix I to this prospectus, is not considered meaningful due to the preparation of the results for the relevant financial periods on a combined basis as disclosed in Note 2.1 of the aforesaid Accountants' Report.

The following table sets forth the principal components of our cost of sales and as a percentage of our total cost of sales for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Raw materials	105,303	77.6	137,482	77.3	138,807	75.0
Depreciation	5,189	3.8	6,299	3.5	7,011	3.8
Utilities	2,719	2.0	2,871	1.6	3,421	1.8
Staff expenses	19,998	14.7	28,778	16.2	32,357	17.5
Operating lease rental	1,735	1.3	2,272	1.3	2,038	1.1
Others	770	0.6	183	0.1	1,503	0.8
Total	135,714	100	177,885	100	185,137	100

The following table sets forth the principal components of our selling and marketing costs for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Staff expenses excluding share option expenses	1,776	10.2	2,349	12.5	2,545	14.6
Share option expenses	2,833	16.3	1,012	5.4	1,390	8.0
Sales commissions	8,389	48.2	10,102	53.6	8,549	49.0
Utilities expenses	921	5.3	1,229	6.5	1,305	7.5
Freight expenses	1,813	10.4	2,259	12.0	1,934	11.1
Traveling expenses	676	3.9	663	3.5	709	4.1
Advertising expenses	873	5.0	901	4.8	495	2.8
Others	132	0.7	321	1.7	509	2.9
Total	17,413	100	18,836	100	17,436	100

The following table sets forth the principal components of our research and development expenses for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Staff expenses excluding share option expenses	5,386	29.5	7,583	36.1	7,651	45.4
Share option expenses	1,939	10.6	693	3.3	951	5.6
Raw materials	8,660	47.4	9,355	44.5	5,973	35.4
Depreciation	1,574	8.6	2,047	9.7	1,044	6.2
Others	699	3.9	1,349	6.4	1,256	7.4
Total	18,258	100	21,027	100	16,875	100

The following table sets forth the principal components of our administrative expenses and as a percentage of our total administrative expenses for the periods indicated.

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Staff expenses excluding share option expenses	12,479	37.9	15,654	43.1	16,217	51.6
Share option expenses	2,684	8.2	959	2.6	1,315	4.2
Auditors' remuneration	136	0.4	108	0.3	137	0.4
Other professional expenses	4,807	14.6	3,171	8.7	2,465	7.8
Others(1)	12,785	38.9	16,460	45.3	11,311	36.0
Total	32,891	100	36,352	100	31,445	100

(1) Please see the table set forth below for the breakdown of the category "Others" in our administrative expenses for the periods indicated.

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Office supplies	3,039	3,208	2,325
Depreciation/amortization	2,044	2,653	2,029
Provision/(reversal) for impairment of trade receivables	46	22	(52)
Utilities charges	3,950	3,235	2,233
Operating lease rental	1,264	3,229	2,867
Legal proceeding settlement costs and related legal expenses	811	1,814	–
Miscellaneous	1,631	2,299	1,909
Total	12,785	16,460	11,311

The following table sets forth the allocation of our share option expenses between selling and marketing costs, administrative expenses and research and development expenses for the periods indicated.

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Portion included in selling and marketing cost for sales distributors	1,319	(55)	954
Portion included in selling and marketing cost for employees[1]	1,514	1,067	436
Portion included in research and development expenses[1]	1,939	693	951
Portion included in administrative expenses[1]	2,684	959	1,315
Total	7,456	2,664	3,656

(1) The sum of portion included in selling and marketing costs for employees, portion included in research and development expenses and portion included in administrative expenses equals the share option expenses granted to directors and employees as shown in note 17 of Section II of the Accountants' Report.

COMPARISON OF RESULTS OF OPERATIONS

Comparison of the years ended 31 December 2008 and 2009

Revenue

Revenues for the year ended 31 December 2009 were HK$338.4 million, an increase of HK$53.8 million, or 18.9%, from revenues of HK$284.6 million for the year ended 31 December 2008. Revenues from the power management segment were HK$128.6 million for the year ended 31 December 2009, an increase of HK$18.7 million or 17.0%, from revenues of HK$109.9 million from the power management segment for the year ended 31 December 2008. Revenues from the transmission management segment were HK$114.1 million for the year ended 31 December 2009, an increase of HK$40.8 million, or 55.8%, from revenues of HK$73.3 million from the transmission management segment for the year ended 31 December 2008. Revenues from the wavelength management segment were HK$75.8 million for the year ended 31 December 2009, a decrease of HK$7.7 million, or 9.2%, from revenues of HK$83.5 million from the wavelength management segment for the year ended 31 December 2008. Revenues from the signal conditioning and monitoring management segment were HK$6.2 million for the year ended 31 December 2009, a decrease of HK$0.3 million, or 4.3%, from revenues of HK$6.5 million from the signal conditioning and monitoring management segment for the year ended 31 December 2008. Revenues from the others segment were HK$13.7

million for the year ended 31 December 2009, an increase of HK$2.1 million, or 18.6%, from revenues of HK$11.6 million from the others segment for the year ended 31 December 2008.

The increase in revenues in the year ended 31 December 2009 is primarily attributable to a strong recovery in demand from our customers in the last three quarters of 2009 partially offset by the decline of revenue we experienced in first quarter of 2009 as a result of the global financial crisis and temporary delay of purchases by our main customers. The increase in revenues from the power management segment is primarily attributable to growth of VOA and EDFA components sales to customers in China as we successfully gained a larger share of these customers while their business was growing, offset by slower demand for EDFA products from a few overseas customers which we believe is due to slow demand for systems using EDFA products. The increase in revenues from the transmission management segment is primarily attributable to increasing demand for our optical isolators from existing customers in China and the volume supply of additional products such as wavelength lockers. In 2009, we experienced strong demand for our optical isolators, a critical part of transceivers, driven by the rapid buildout of PON networks globally. The decrease in revenues from the wavelength management segment is primarily attributable to the decline of unit price as customers used more lower-channel count products which had a lower price, and the slowing demand for CWDM products, particularly in the South Korea market, partially offset by increasing demand from two customers in China. The decrease in revenues from the signal conditioning and monitoring management segment is primarily attributable to slower demand for tap-PD products. The increase in revenues from the others segment is primarily attributable to launching and volume delivery of FTTH products in 2009.

Cost of Sales

Cost of sales for the year ended 31 December 2009 were HK$185.1 million, an increase of HK$7.2 million, or 4.1%, from cost of sales of HK$177.9 million for the year ended 31 December 2008. Although revenues increased 18.9% during this period, which would normally result in a corresponding increase in cost of sales for the period, the smaller percentage increase in cost of sales as compared to the percentage increase in revenue during this period was primarily attributable to an increase of transmission management products as a percentage of revenues because its cost of sales as a percentage of revenues is lower than wavelength management and power management products. The reason for this is that we internally supply substantially all the key components for transmission management products while we partially rely on outside vendors for certain raw materials for wavelength and power management products.

Raw material consumption for the year ended 31 December 2009 were HK$138.8 million, an increase of HK$1.3 million, or 1.0%, from HK$137.5 million for the year ended 31 December 2008. The increase was primarily attributable to an increase in sales from HK$284.6 million for the year ended 31 December 2008 to HK$338.4 million for the year ended 31 December 2009.

Depreciation expenses for the year ended 31 December 2009 were HK$7.0 million, an increase of HK$0.7 million, or 11.3%, from HK$6.3 million for the year ended 31 December 2008. The increase was primarily attributable to increased investment in equipments in 2009.

Utilities expenses for the year ended 31 December 2009 were HK$3.4 million, an increase of HK$0.5 million, or 19.2%, from HK$2.9 million for the year ended 31 December 2008. The increase was primarily attributable to a larger workforce in 2009 than in 2008 and the related increase in utilities consumption.

Employee benefits for the year ended 31 December 2009 were HK$32.4 million, an increase of HK$3.6 million, or 12.4%, from HK$28.8 million for the year ended 31 December 2008. The increase was primarily attributable to a larger workforce eligible for employee benefits in 2009 than in 2008.

Gross Profit and Gross Profit Margin

Gross profit for the year ended 31 December 2009 was HK$153.2 million, an increase of HK$46.4 million, or 43.6%, from gross profit of HK$106.8 million for the year ended 31 December 2008. Gross profit as a percentage of total revenues, or gross profit margin, increased to 45.3% for the year ended 31 December 2009 as compared to 37.5% for the year ended 31 December 2008. As more fully described below, this increase was caused by a focus on higher margin products, price reductions in raw materials and improved production efficiency. The increase in gross profit margin was primarily attributable to improvement of gross profit margin in most product segments as a result of scale economy and launches of higher margin products, aided by the fact that transmission products, which tend to have a higher gross profit margin, grew significantly as a percentage of revenues. The gross profit margin of our transmission management products increased to 50.8% for the year ended 31 December 2009 from 42.2% for the year ended 31 December 2008 primarily as a result of the improved production efficiency and yield improvement as sales increased and the decrease of cost of key materials offset partially by the price concessions we offered to our customers. In addition, new products launched by us such as wavelength lockers have a higher profit margin than other existing transmission management products. Our gross profit margin of power management products increased from 35.9% for the year ended 31 December 2008 to 43.0% for the year ended 31 December 2009 as a result of a price reduction of raw materials and components offset partially by price concessions we offered to our customers. Our gross profit margin of wavelength management products also increased from 39.0% for the year ended 31 December 2008 to 49.2% for the year ended 31 December 2009 as a result of a price reduction of raw materials offset partially by price concessions which we offered to customers. Our gross profit margin of signal conditioning and monitoring products increased from 11.8% for the year ended 31 December 2008 to 45.7% for the year ended 31 December 2009 primarily due to an increase in production volume of our new product, tap PD, which was launched in 2008. Such an increase in production volume without a corresponding increase in production costs resulted in economies of scale and led to an increase in gross profit margin in the signal conditioning and monitoring products. Our gross profit margin of other products decreased from 26.5% for the year ended 31 December 2008 to -1.3% for the year ended 31 December 2009 primarily due to the sales of our FTTH products which had negative gross margin for the year ended 31 December 2009. The gross loss of our FTTH products was primarily attributable to the low production efficiency and yield for our FTTH products. We do not plan to continue production of our FTTH products in 2010. The overall gross profit margin of other products for the year ended 31 December 2009 was -1.3%, which was a result of the offsetting of other products with a positive gross profit margin against the negative profit margin of our FTTH products.

Other Gains

Other gains for the year ended 31 December 2009 were HK$2.1 million, an increase of HK$0.9 million, or 76.3%, from other gains of HK$1.2 million for the year ended 31 December 2008. The gain for the year ended 31 December 2009 is primarily the result of government grants, partially offset by losses on the sales scrapped or surplus of materials as compared to 2008 when other gains were also primarily government grants offset partially by losses on the sales of materials and disposal of equipment.

Selling and Marketing Costs

Selling and marketing costs for the year ended 31 December 2009 were HK$17.4 million, a decrease of HK$1.4 million, or 7.4%, from selling and marketing costs of HK$18.8 million for the year ended 31 December 2008. The decrease in selling and marketing costs was primarily attributable to increasing sales in China which we generally cover with our direct sales force partially offset by an increase in staff expenses by HK$0.2 million, or 8.3% and an increase in share option expenses by HK$0.4 million, or 37.4%. As a result, we generally do not incur distributor commissions for sales in China. Selling and marketing costs as a percentage of revenues decreased to 5.1% for the year ended 31 December 2009 as compared to 6.6% for the year ended 31 December 2008. The decrease in selling and marketing costs as a percentage of revenues was primarily attributable to a higher revenue base and lower sales and marketing costs attributable to the increasing sales in China.

Staff expenses excluding share option expenses for the year ended 31 December 2009 were HK$2.5 million, an increase of HK$0.2 million, or 8.3%, from HK$2.3 million for the year ended 31 December 2008. The increase was primarily attributable to increased hiring of sales personnel in 2009.

Sales commissions for the year ended 31 December 2009 were HK$8.5 million, a decrease of HK$1.6 million, or 15.4%, from HK$10.1 million for the year ended 31 December 2008. The decrease was primarily attributable to a decrease in the average commission rate in 2009 and a decrease in sales outside of the PRC with respect to which we typically pay a sales commission. In addition, we generally cover China with our direct sales force. As a result, we generally do not incur distributor commissions for sales in China and did not experience an increase in the amount of sales commission in 2009 despite the fact that our revenues for the year ended 31 December 2009 increased by HK$53.8 million, or 18.9% from revenues for the year ended 31 December 2008. The effective commission rate, which is the result of total commissions paid by the company divided by total revenues, was 3.5% for the year ended 31 December 2008 and 2.5% for the year ended 31 December 2009.

Utilities expenses for the year ended 31 December 2009 were HK$1.3 million, an increase of HK$0.1 million, or 6.2%, from HK$1.2 million for the year ended 31 December 2008. The increase was primarily attributable to hiring more sales personnel in 2009.

Freight expenses for the year ended 31 December 2009 were HK$1.9 million, a decrease of HK$0.4 million, or 14.4%, from HK$2.3 million for the year ended 31 December 2008. The decrease was primarily attributable to a decrease in crude oil prices during 2009 which made the freight unit charges cheaper than 2008, despite the fact that our revenues for the year ended 31 December 2009 increased by HK$53.8 million, or 18.9% from revenues for the year ended 31 December 2008.

Advertising expenses for the year ended 31 December 2009 were HK$0.5 million, a decrease of HK$0.4 million, or 45.1%, from HK$0.9 million for the year ended 31 December 2008. The decrease was primarily attributable to increasing sales in China which we generally cover with our direct sales force. As a result, we incurred less advertising expenses, despite the fact that our revenues for the year ended 31 December 2009 increased by HK$53.8 million, or 18.9% from the year ended 31 December 2008.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2009 were HK$16.9 million, a decrease of HK$4.1 million, or 19.7%, from research and development expenses of HK$21.0 million for the year ended 31 December 2008. The decrease in research and development expenses was primarily attributable to high materials costs associated with electronic subsystem projects which we undertook and substantially finished in 2008. Although we have pursued a greater number of research and development projects in 2009 than during 2008, the projects in 2009 are mostly based on our coating and precision optics technologies which in general incur less cost of materials. Research and development expenses as a percentage of revenues decreased to 5.0% for the year ended 31 December 2009 as compared to 7.4% for the year ended 31 December 2008. The decrease in research and development expenses as a percentage of revenues was primarily attributable to a higher revenue base and lower research and development costs in 2009 for the reasons explained above.

Staff expenses excluding share option expenses for the year ended 31 December 2009 were HK$7.7 million, an increase of HK$0.1 million, or 0.9%, from HK$7.6 million for the year ended 31 December 2008. The increase was primarily attributable to increased hiring of research and development personnel.

Raw material costs for the year ended 31 December 2009 were HK$6.0 million, a decrease of HK$3.4 million, or 36.2%, from HK$9.4 million for the year ended 31 December 2008. The decrease was primarily attributable to high material costs associated with electronic subsystem projects which we undertook and substantially finished in 2008. Although we have pursued a greater number of research and development projects in 2009 than during 2008, the projects in 2009 are mostly based on our coating and precision optics technologies which generally incur less cost of materials.

Administrative Expenses

Administrative expenses for the year ended 31 December 2009 were HK$31.4 million, a decrease of HK$5.0 million, or 13.5%, from administrative expenses of HK$36.4 million for the year ended 31 December 2008. The decrease in administrative expenses was primarily attributable to one-time legal proceeding settlement costs and legal expenses of HK$1.8 million we incurred in 2008 as a result of litigation which we settled and one-time professional expenses aggregating HK$3.2 million we incurred in 2008 in connection with a potential listing on the US Nasdaq which we decided not to pursue before filing of the relevant listing documents with the US Securities and Exchange Commission and the US Nasdaq due to the global economic downturn in 2008, partially offset by an increase in staff expenses excluding share option expenses by HK$0.5 million, or 3.6% and an increase in share option expenses by HK$0.3 million, or 37.1%. In addition, we achieved cost savings in 2009 after we relocated part of our operations back to our main facilities located in Maqueling Industrial Park. As a result of the decrease in administrative expenses and an increase in revenues during the period, administrative expenses as a percentage of revenues decreased to 9.3% for the year ended 31 December 2009 as compared to 12.8% for the year ended 31 December 2008.

Staff expenses for the year ended 31 December 2009 were HK$16.2 million, an increase of HK$0.5 million, or 3.6%, from HK$15.7 million for the year ended 31 December 2008. The increase was primarily attributable to increased hiring of staff in 2009.

Professional expenses for the year ended 31 December 2009 were HK$2.5 million, a decrease of HK$0.7 million, or 22.3%, from HK$3.2 million for the year ended 31 December 2008. The decrease was primarily attributable to one-time professional expenses aggregating HK$3.2 million we incurred in 2008 in connection with a potential listing on the US Nasdaq which we ultimately decided not to pursue, partially offset by legal fees of HK$2.3 million for a group reorganization in 2009.

Office supplies expenses, which is a component of others of our administrative expenses, mainly consist of general office supplies and minor office equipment. Office supplies expenses for the year ended 31 December 2009 were HK$2.3 million, a decrease of HK$0.9 million, or 27.5%, from HK$3.2 million for the year ended 31 December 2008. The decrease was primarily attributable to more stringent cost control measures implemented in 2009.

Finance Costs

Finance costs for the year ended 31 December 2009 were HK$1.1 million, an 84.7% decrease from finance costs of HK$6.9 million for the year ended 31 December 2008. The decrease in finance costs was primarily attributable to a reduction in foreign exchange loss during the period due to stability of the RMB against other currencies.

Our costs are predominantly in RMB, whereas our revenues are in US dollars and RMB. As such we face foreign exchange and conversion risks primarily through sales that are dominated in currencies other than RMB. Fluctuation in the exchange rate between RMB and the US dollar may adversely affect our business, financial condition and results of operations. For illustrative purposes only, the exchange rate of the RMB against the US dollar ranged from RMB 7.3037 per US$1.00 to RMB 7.8160 per US$1.00 during the year ended 31 December 2007, from RMB 6.8113 per US$1.00 to RMB 7.3041 per US$1.00 during the year ended 31 December 2008 and ranged from RMB 6.8192 per US$1.00 to RMB 6.8519 per US$1.00 during the year ended 31 December 2009. Due to the rapid appreciation of the RMB against the US dollar in 2007 and 2008, we incurred an exchange loss of approximately HK$4.9 million and HK$5.9 million, respectively. Our exchange loss during 2009 was HK$0.6 million. We incurred significantly less exchange loss during 2009 due to the stablization of exchange rate between RMB against the US dollar as well as an increased proportion of our sales made in the PRC, which are generally denominated in RMB.

We currently do not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. We will also monitor and maintain our US dollar cash balance in order to minimize the need for unnecessary foreign exchange conversion which may result in exchange loss. For further details, please refer to the section headed "Risk Factors – Risks relating to conducting business in China – Fluctuation in the value of the Renminbi could expose us to foreign currency risks and may have an adverse effect on our financial position" in this prospectus.

Income Tax Expense

Tax expenses for the year ended 31 December 2009 were HK$9.3 million, an increase of HK$7.4 million, or 404.2% from a tax expense of HK$1.9 million for the year ended 31 December 2008. The increase in tax expenses was primarily due to an increase of our profits in 2009 and an increase of the enacted tax rate of O-Net Shenzhen from 9% in 2008 to 10% in 2009.

Net Profit and Net Profit Margin

Net profit increased by HK$56.2 million from HK$23.0 million for the year ended 31 December 2008 to HK$79.2 million for the year ended 31 December 2009. Net profit as a percentage of total revenues, namely net profit margin, increased by 15.3 percentage points from 8.1% for the year ended 31 December 2008 to 23.4% for the year ended 31 December 2009. The increase in net profit and net profit margin was primarily due to an increase in gross profit of HK$46.4 million, or 7.8% as a percentage of total revenues, from HK$106.8 million for the year ended 31 December 2008 to HK$153.2 million for the year ended 31 December 2009, an increase in other gains of HK$0.9 million, or 0.2% as a percentage of total revenues and other reasons set forth above.

Comparison of the years ended 31 December 2007 and 2008

Revenue

Revenues for the year ended 31 December 2008 were HK$284.6 million, an increase of HK$54.9 million, or 23.9%, from revenues of HK$229.7 million for the year ended 31 December 2007. Revenues from the power management segment were HK$109.9 million for the year ended 31 December 2008, an increase of HK$32.7 million, or 42.3%, from revenues of HK$77.2 million from the power management segment for the year ended 31 December 2007. Revenues from the transmission management segment were HK$73.3 million for the year ended 31 December 2008, an increase of HK$19.5 million, or 36.0%, from revenues of HK$53.8 million from the transmission management segment for the year ended 31 December 2007. Revenues from the wavelength management segment were HK$83.5 million for the year ended 31 December 2008, a decrease of HK$2.7 million, or 3.1%, from revenues of HK$86.2 million from the wavelength management segment for the year ended 31 December 2007. Revenues from the signal conditioning and monitoring management segment were HK$6.5 million for the year ended 31 December 2008, an increase of HK$0.9 million, or 14.8%, from revenues of HK$5.6 million from the signal conditioning and monitoring management segment for the year ended 31 December 2007. Revenues from the others segment were HK$11.6 million for the year ended 31 December 2008, an increase of HK$4.7 million, or 68.5%, from revenues of HK$6.9 million from the others segment for the year ended 31 December 2007.

The increase in revenues in the year ended 31 December 2008 is primarily attributable to growth in our power management and transmission management segments, partially offset by a decline in our wavelength management segment. The increase in revenues from the power management segment is primarily attributable to volume shipments of previously qualified products such as EDFAs and VOAs to existing customers and their contract manufacturers as these customers had growing demand for systems using EDFA and VOA products. The increase in revenues from the transmission management segment is primarily attributable to increasing sales of optical isolators to existing and new customers which we believe was driven by the development of PON networks, of which our isolator is an integral part. The decrease in revenues from the wavelength management segment is primarily attributable to a decline in sales of CWDM products to certain customers overseas particularly in the South Korea market, partially offset by increasing sales of DWDM products in China and overseas as we gain design-wins from these customers. The increase in revenues from the signal conditioning and monitoring management segment is primarily attributable to increasing demand for tap-PD products from one customer. The increase in revenues from all other segments is primarily attributable to increasing sales of PON and cable television related products.

Cost of Sales

Cost of sales for the year ended 31 December 2008 were HK$177.9 million, an increase of HK$42.2 million, or 31.1%, from cost of sales of HK$135.7 million for the year ended 31 December 2007. The increase in cost of sales was primarily attributable to a higher revenue base in 2008, and the higher cost associated with power management products which comprised a higher portion of revenues. Our power management products had higher costs than other products because we relied on outside vendors for certain key raw materials such as pump lasers which represented a significant portion of the total cost.

Raw material consumption costs for the year ended 31 December 2008 were HK$137.5 million, an increase of HK$32.2 million, or 30.6%, from HK$105.3 million for the year ended 31 December 2007. The increase was primarily attributable to higher costs associated with power management products which comprised a higher portion of revenues than other products. Our power management products had higher cost than other products because we relied on outside vendors for certain key raw material such as pump lasers which represented a significant portion of the total cost of power management products.

Depreciation expenses for the year ended 31 December 2008 were HK$6.3 million, an increase of HK$1.1 million, or 21.4%, from HK$5.2 million for the year ended 31 December 2007. The increase was primarily attributable to increased investment in equipment in 2008.

Utilities expenses for the year ended 31 December 2008 were HK$2.9 million, an increase of HK$0.2 million, or 5.6%, from HK$2.7 million for the year ended 31 December 2007. The increase was primarily attributable to a larger workforce in 2008 than in 2007 and the related increase in utilities consumption.

Staff expenses for the year ended 31 December 2008 were HK$28.8 million, an increase of HK$8.8 million, or 43.9%, from HK$20.0 million for the year ended 31 December 2007. The increase was primarily attributable to a larger workforce and higher staff benefits in 2008 than in 2007.

Gross Profit and Gross Profit Margin

Gross profit for the year ended 31 December 2008 was HK$106.8 million, an increase of HK$12.8 million, or 13.6%, from gross profit of HK$94.0 million for the year ended 31 December 2007. Gross profit as a percentage of revenues decreased to 37.5% for the year ended 31 December 2008 as compared to 40.9% for the year ended 31 December 2007. The decrease in gross profit margin was primarily a result of declines in gross profit margins of wavelength and transmission management products, and the decline in signal conditioning and monitoring, and other products, while offset partially by the slight increase in gross margin of power management products. Our gross profit margin of power management products increased slightly from 35.1% for the year ended 31 December 2007 to 35.9% for the year ended 31 December 2008 as a result of increased revenue generated from increased sales in 2008 compared to 2007, the increased gross profit as a percentage of total revenues, and cost reduction of raw materials and components, offset partially by the price concessions we offered to our customers. Our gross profit margin of transmission management products declined from 45.6% for the year ended 31 December 2007 to 42.2% for the year ended 31 December 2008 primarily as a result of the customary annual price concessions we offered to our existing customers for existing products. Our gross profit margin of wavelength management declined from 45.2% for the year ended 31 December 2007 to 39.0% for the year ended 31 December

2008 due to the decline in the revenue as a result of decreased sales from 2007 to 2008, the decreased gross profit as a percentage of total revenues, and the customary annual price concessions we offered to our existing customers for existing products. Our gross profit margin of signal conditioning and the customary annual monitoring products declined from 30.0% for the year ended 31 December 2007 to 11.8% for the year ended 31 December 2008 primarily due to a low production yield associated with new product delivery to one customer overseas. Our gross profit margin of other products increased from 25.2% for the year ended 31 December 2007 to 26.5% for the year ended 31 December 2008 primarily due to an increase in sales of CATV-related products which had a higher profit margin than other products in this category.

Other Gains

Other gains for the year ended 31 December 2008 were HK$1.2 million, an increase of HK$1.0 million, or 413.6%, from other gains of HK$0.2 million for the year ended 31 December 2007. Other gains as a percentage of revenues increased from 0.1% for the year ended 31 December 2007 to 0.4% for the year ended 31 December 2008. For the year ended 31 December 2008 other gains were primarily comprised of government grants, partially offset by losses on the sale of raw materials and losses on disposals of property, plant and equipment and other losses, as compared to the year ended 31 December 2007, when other gains were primarily comprised of sales of raw materials and substantially offset by losses on sales of property, plant and equipment.

Selling and Marketing Costs

Selling and marketing costs for the year ended 31 December 2008 were HK$18.8 million, an increase of HK$1.4 million, or 8.2%, from selling and marketing costs of HK$17.4 million for the year ended 31 December 2007. The increase in selling and marketing costs was primarily attributable to increases in sales commissions paid to distributors and various staffing and marketing expenses as a result of sales growth, partially offset by a reduction of share option expenses included in selling and marketing costs. Selling and marketing costs as a percentage of revenues decreased to 6.6% for the year ended 31 December 2008 as compared to 7.6% for the year ended 31 December 2007. The decrease in selling and marketing costs as a percentage of revenues was primarily attributable to a reduction in the effective commission rate paid to distributors, reduction in share option expenses and the fact that staffing and marketing expenses have grown slower than revenues.

Staff expenses excluding share option expenses for the year ended 31 December 2008 were HK$2.3 million, an increase of HK$0.5 million, or 32.3%, from HK$1.8 million for the year ended 31 December 2007. The increase was primarily attributable to increased hiring of sales personnel in 2008.

Sales commissions for the year ended 31 December 2008 were HK$10.1 million, an increase of HK$1.7 million, or 20.4%, from HK$8.4 million for the year ended 31 December 2007. The increase was primarily attributable to increases in sales commissions paid to distributors and various staffing and marketing expenses as a result of sales growth. The effective commission rate, which is the result of total commissions paid by the company divided by total revenues, was 3.7% for the year ended 31 December 2007 and 3.5% for the year ended 31 December 2008.

Utilities expenses for the year ended 31 December 2008 were HK$1.2 million, an increase of HK$0.3 million, or 33.4%, from HK$0.9 million for the year ended 31 December 2007. The increase was primarily attributable to increased hiring of sales personnel in 2008.

Freight expenses for the year ended 31 December 2008 were HK$2.3 million, an increase of HK$0.5 million, or 24.6%, from HK$1.8 million for the year ended 31 December 2007. The increase was primarily attributable to an increase in sales of HK$54.9 million, or 23.9% from the year ended 31 December 2007 to the year ended 31 December 2008.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2008 were HK$21.0 million, an increase of HK$2.7 million, or 15.2%, from research and development expenses of HK$18.3 million for the year ended 31 December 2007. The increase in research and development expenses was primarily attributable to an increase in employee benefit expenses including stock option expenses and increasing materials costs associated with electronic subsystem development projects which we undertook in 2008. Research and development expenses as a percentage of revenues decreased slightly to 7.4% for the year ended 31 December 2008 as compared to 7.9% for the year ended 31 December 2007. The slight decrease in research and development expenses as a percentage of revenues was primarily attributable to faster growth in revenue than research and development expenses in 2008.

Staff expenses excluding share option expenses for the year ended 31 December 2008 were HK$7.6 million, an increase of HK$2.2 million, or 40.8%, from HK$5.4 million for the year ended 31 December 2007. The increase was primarily attributable to increased hiring of research and development personnel.

Raw material costs for the year ended 31 December 2008 were HK$9.4 million, an increase of HK$0.7 million, or 8.0%, from HK$8.7 million for the year ended 31 December 2007. The increase was primarily attributable to raw material costs related to electronic subsystem development projects which we undertook in 2008.

Administrative Expenses

Administrative expenses for the year ended 31 December 2008 were HK$36.4 million, an increase of HK$3.5 million, or 10.5%, from administrative expenses of HK$32.9 million for the year ended 31 December 2007. The increase in administrative expenses was primarily attributable to an increase of staff costs, partially offset by the reduction in stock compensation expenses and certain one-time auditor and other professional fees in 2008 compared to 2007. Administrative expenses as a percentage of revenues decreased to 12.8% for the year ended 31 December 2008 as compared to 14.3% for the year ended 31 December 2007. The decrease in administrative expenses as a percentage of revenues was primarily attributable to better management efficiency achieved as a result of growing operational scale as well as a reduction in stock compensation expenses and certain one-time auditor and other professional fees.

Office supplies expenses for the year ended 31 December 2008 were HK$3.2 million, an increase of HK$0.2 million, or 5.6%, from HK$3.0 million for the year ended 31 December 2007. The increase was primarily attributable to a larger workforce and the related increase in the use of raw materials in 2008.

Staff expenses excluding share option expenses for the year ended 31 December 2008 were HK$15.7 million, an increase of HK$3.2 million, or 25.4%, from HK$12.5 million for the year ended 31 December 2007. The increase was primarily attributable to increased hiring of staff in 2008.

Legal proceeding settlement costs and related legal expenses for the year ended 31 December 2008 were HK$1.8 million, an increase of HK$1 million, or 123.7%, from HK$0.8 million for the year ended 31 December 2007. The increase was primarily attributable to one-time professional fees and expenses of HK$1.8 million we incurred in 2008 as a result of a patent infringement dispute which we later settled. For more details, see the section headed "Business – Intellectual Property" in this prospectus.

Professional expenses for the year ended 31 December 2008 were HK$3.2 million, a decrease of HK$1.6 million, or 34.0%, from HK$4.8 million for the year ended 31 December 2007. The decrease was primarily attributable to one-time professional expenses we incurred in 2007 in connection with a potential listing on the US Nasdaq, which we ultimately decided not to pursue.

Finance Costs

Finance costs for the year ended 31 December 2008 were HK$6.9 million, an increase of HK$2.1 million, or 42.2%, from finance costs of HK$4.8 million for the year ended 31 December 2007. The increase in finance costs was primarily attributable to an increase in foreign exchange loss due to rapid appreciation of the RMB versus the US dollar and an increase in interest expenses partially offset by an increase in interest income.

Income Tax Expense

Income tax expenses for the year ended 31 December 2008 was HK$1.9 million, an increase of HK$1.4 million, or 249.2%, from income tax expenses of HK$0.5 million for the year ended 31 December 2007. The increase in tax expenses was primarily due to the fact that the "2-year exemption" of the "2-year exemption and 3-year half payment" tax preferential period enjoyed by O-Net Shenzhen ended as at 31 December 2007 and the "3-year half payment" period began in 2008.

Net Profit and Net Profit Margin

Net profit increased by HK$2.7 million from HK$20.3 million for the year ended 31 December 2007 to HK$23.0 million for the year ended 31 December 2008. Net profit as a percentage of total revenues, namely net profit margin, decreased by 0.7 percentage points from 8.8% for the year ended 31 December 2007 to 8.1% for the year ended 31 December 2008. The increase in net profit and the slight decrease in net profit margin was the result of the interaction of multiple reasons set forth above.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our principal sources of liquidity have been cash provided by operations and borrowings under our bank loans. Our principal uses of cash during this period have been to finance working capital, facility expansions, capital expenditures and debt service requirements. We anticipate these uses will continue to be our principal uses of cash in the future.

Working Capital

Based on the estimated net proceeds from the Global Offering, our cash and bank deposits and cash flows from operations, we confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

In general, we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs and the continuing expansion of our business. Although we do not currently have an unused bank facility in place, in the future, we may use short-term bank borrowings to finance operations. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due. We will use approximately HK$200.0 million of the proceeds from the Global Offering to finance the construction and build-out of new facilities on approximately 38,000 square meters of land owned by us located in Pingshan New District, Shenzhen City, China.

We had bank balances and cash of HK$12.0 million, HK$23.0 million, and HK$26.5 million as at 31 December 2007, 2008 and 2009, respectively.

We had net current assets of HK$15.1 million, HK$38.2 million and HK$118.4 million as at 31 December 2007, 2008 and 2009, respectively. The increase of HK$23.1 million in net current assets from 31 December 2007 to 31 December 2008 was due to a decrease of HK$48.3 million in current liabilities, offset by a decrease in current assets of HK$25.3 million for the year ended 31 December 2008. The increase of HK$80.2 million in net current assets from 31 December 2008 to 31 December 2009 was due to an increase of HK$94.2 million in current assets, offset by an increase in current liabilities of HK$14.0 million for the year ended 31 December 2009. The reasons for the changes in current assets and current liabilities during the Track Record Period are set forth below.

We had current assets of HK$183.4 million, HK$158.1 million, and HK$252.3 million as at 31 December 2007, 2008 and 2009, respectively. The decrease in current assets from 31 December 2007 to 31 December 2008 is primarily due to the reduction of pledged bank deposits as a result of the repayment of bank loans in 2008 and, to a lesser extent, the reduction of inventory due to the cautious approach to inventory management we adopted during the business slow-down we experienced during the last quarter of 2008. The slow-down continued until the first quarter of 2009, after which we experienced a strong recovery of business as evidenced by our quarterly sales and profit in subsequent quarters. The increase in current assets from 31 December 2008 to 31 December 2009 is primarily attributable to growth in trade and other receivables by HK$80.8 million and an increase in inventory by HK$9.9 million, in each case resulting from a significant increase in sales in the last three quarters of 2009.

We had current liabilities of HK$168.3 million, HK$120.0 million, and HK$133.9 million as at 31 December 2007, 2008 and 2009, respectively. The reduction in current liabilities from 31 December 2007 to 31 December 2008 resulted from the reduction of bank borrowings and, to a lesser extent, the reduction of trade and other payables as a result of the business slow-down we experienced during the last quarter of 2008. From a working capital perspective, the business slow-down in last quarter of 2008 brought about the decrease in trade and other payables which negatively impacted on our cash flow situation by approximately HK$14.2 million. On the other hand our cautious approach to control our inventory, evidenced by a reduction of inventories of HK$9.2 million, has partially offset such negative impact. As our business recovered quickly in the second quarter of 2009, the negative impact on our working capital situation soon disappeared. The increase in current liabilities from 31 December 2008 to 31 December 2009 is primarily attributable to an increase in trade and other payables resulting from increased raw materials to support increased sales, particularly in the last three quarters of 2009, partially offset by reductions in bank borrowings and the amount due to related parties.

The key components of our current assets as at 31 December 2008 included: inventories of HK$46.4 million; trade and other receivables of HK$88.7 million and cash and cash equivalents of HK$23.0 million. The key components of our current assets as at 31 December 2009 included: inventories of HK$56.3 million; trade and other receivables of HK$169.5 million; and cash and cash equivalents of HK$26.5 million. The key components of our current liabilities as at 31 December 2008 included: trade and other payables of HK$95.5 million; and borrowings of HK$22.7 million. The key components of our current liabilities as at 31 December 2009 included: trade and other payables of HK$123.0 million; and current income tax liabilities of HK$10.9 million.

Net current assets

The following table sets out our current assets, current liabilities and net current assets as at 28 February 2010.

	As at 28 February 2010
	(unaudited)
	(HK$'000)
Current assets	
Inventories	63,448
Trade and other receivables	195,492
Cash and cash equivalents	31,226
	290,166
Current liabilities	
Trade and other payables	130,831
Current income tax liabilities	14,571
	145,402
Net current assets	144,764

Note: All related parties balances as at 31 December 2009 have been subsequently settled in full by cash except for the amount due to Shenzhen Kaifa of approximately HK$34.0 million. We plan to repay the entire amount due to Shenzhen Kaifa from a portion of the net proceeds of the Global Offering.

Cash Flows

The following table sets forth certain information regarding our combined cash flows for the years indicated.

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Net cash from operating activities	13,076	6,936	35,108
Net cash used in investing activities	(37,958)	(12,597)	(6,106)
Net cash from/(used in) financing activities	4,783	15,882	(25,474)
Cash and cash equivalents at the beginning of the year	31,297	12,015	22,979
Exchange difference	817	743	37
Cash and cash equivalents at the end of the year[(1)]	12,015	22,979	26,544

(1) The balances consisted of cash and bank balances.

Net Cash Flows from Operating Activities

Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation and amortization, and the effects of changes in working capital, such as increases or decreases in trade and other receivables, accruals and other payables, and income tax payment.

For the year ended 31 December 2009, we had net cash from operating activities of HK$35.1 million, primarily as a result of operating profits of HK$89.6 million, and an increase in inventories of HK$10.8 million, an increase in trade and other receivables of HK$84.5 million, and an increase in trade and other payables of HK$27.5 million. The increase in inventories was primarily attributable to growing product demand. The increase in inventories was primarily due to a significant sales increase in the last three quarters of 2009. The increase in trade and other receivables was primarily attributable to an increase in products delivered and an increase in the number of days of accounts receivable. The increase in trade and other payables was primarily attributable to increased purchases of supplies as a result of business growth.

For the year ended 31 December 2008, we had net cash from operating activities of HK$6.9 million, primarily as a result of operating profits of HK$31.7 million, a decrease in inventories of HK$9.1 million, an increase in trade and other receivables of HK$26.2 million, and a decrease in trade and other payables of HK$14.2 million. The decrease in inventories was primarily attributable to the reduction of raw material purchases and the consumption of inventory on hand due to the business slow-down we experienced during last quarter of 2008. The increase in trade and other receivables was primarily due to growth in the business and increased credit terms with certain customers and the decrease in trade and other payables was due to the business slow-down we experienced during the last quarter of 2008.

In the year ended 31 December 2007, we had net cash from operating activities of HK$13.1 million, primarily as a result of operating profits of HK$25.7 million, and increases in inventories, trade and other receivables, and trade and other payables compared to the preceding year. The increase in inventories was primarily attributable to growth of our business scale. The increases in trade and other receivables and in trade and other payables were also primarily attributable to increases in our business scale.

Net Cash Used in Investing Activities

Our cash from investing activities primarily consists of proceeds from the disposal of property, plant and equipment and interest income. Our cash used in investing activities primarily consists of capital expenditures for the purchase of machinery and equipment, land use right and intangible assets.

For the year ended 31 December 2009, we had net cash used in investing activities of HK$6.1 million, primarily as a result of HK$6.1 million used for the purchase of machinery and equipment.

For the year ended 31 December 2008, we had net cash used in investing activities of HK$12.6 million, primarily as a result of payment for the purchase of machinery and equipment to meet production capabilities of HK$12.5 million.

For the year ended 31 December 2007, we had net cash used in investing activities of HK$38.0 million, primarily as a result of HK$12.7 million used for the purchase of machinery and equipment, HK$27.0 million used for purchase of land use right, HK$0.5 million used for intangible assets, partially offset by proceeds of HK$1.9 million from the disposal of machinery and equipment and HK$0.3 million of interest income.

Net Cash from (Used in) Financing Activities

For the year ended 31 December 2009, net cash used in financing activities was HK$25.5 million, primarily resulting from HK$22.7 million used in the repayment of bank loans.

For the year ended 31 December 2008, net cash from financing activities was HK$15.9 million, primarily as a result of HK$58.2 million used in the repayment of bank loans, partially offset by the receipt of HK$22.4 million from new bank loans raised, withdrawal of pledged deposits of HK$53.4 million and payments for issuance costs of HK$1.7 million.

For the year ended 31 December 2007, net cash from financing activities was HK$4.8 million, primarily as a result of the receipt of HK$58.5 million from new bank loans raised, offset by HK$19.6 million used in the repayment of bank loans, and HK$34.0 million used in pledged deposits for bank loans.

Statement of Indebtedness

We have financed our operations primarily through cash flows from operations, loans from banks, related-party advances and proceeds from equity issuances. The tables below sets forth our short-term borrowings and amounts due to a related party as at the dates indicated.

	As at 31 December			As at 28 February
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Short-term bank borrowings	58,522	22,678	–	–
Representing:				
Bank borrowings – secured				
– Pledged	53,396	22,678	–	–
– Guaranteed	5,126	–	–	–
	58,522	22,678	–	–
Amounts due to a related party				
Shenzhen Kaifa Technology Co., Ltd	31,924	33,897	33,951	33,997

The amounts due to Shenzhen Kaifa were interest free, unsecured and repayable on demand. The amounts due to Shenzhen Kaifa were incurred in the period following our formation as a joint venture between a wholly-owned subsidiary of Shenzhen Kaifa and Mandarin IT Fund I. In that period, Shenzhen Kaifa paid rent and other operating expenses on our behalf. We plan to repay the entire amount due to Shenzhen Kaifa with a portion of the net proceeds of the Global Offering.

The details of bank borrowings at the end of each of the balance sheets were as follows:

As at	Borrowing amount	Security/Guarantee details
	HK$'000	
31 December 2007	53,396	Pledged by a bank deposit with the amount of HK$53,396,000
	5,126	Guaranteed by Shenzhen Small & Medium Enterprise Credit Guarantee Center Co., Ltd, Mandarin VP(HK) Ltd., Co and Mr. Na Qinglin and pledged by machinery and equipment with carrying amounts of HK$5,795,000
	58,522	
31 December 2008	11,339	Pledged by land use right with a carrying amount of HK$28,949,000
	11,339	Pledged by land use right with a carrying amount of HK$28,949,000
	22,678	
31 December 2009	–	None
28 February 2010 (unaudited)	–	None

The effective interests rates at each of the balance sheet dates were as follows:

	As at 31 December			As at 28 February
	2007	2008	2009	2010
				(unaudited)
Bank borrowings	6.88%	7.47%	N/A	N/A

The maturity of borrowings as at 31 December 2007 and 2008 was within one year.

As at 28 February 2010, the Group did not have any banking facilities. As at the Latest Practicable Date, the Company did not have any intention of obtaining banking facilities in the near term after the Listing.

No Other Outstanding Indebtedness

Other than as set forth in the statement of indebtedness above or as otherwise disclosed in this prospectus and apart from intra-group liabilities and normal trade payables, we did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, pledges, charges, debentures, mortgages, loans, debt securities or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities or acceptances (other than normal trade bills), acceptance creditors or any guarantees or other material contingent liabilities outstanding at the close of business as at 28 February 2010.

Our Directors confirm that there has been no material adverse change in our indebtedness and contingent liabilities since 28 February 2010, the indebtedness date.

CAPITAL EXPENDITURES

The following table sets out our capital expenditures for the periods indicated. Our capital expenditures were funded out of the proceeds of bank loans, cash generated from operations.

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditures			
Land use right	27,035	–	–
Property, plant and equipment	12,655	12,522	11,292
Total	39,690	12,522	11,292

INVENTORIES

During the Track Record Period our inventories fluctuated as a result of changing customer demand. The table below sets forth a breakdown of our inventories as at the balance sheet dates indicated.

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	20,415	17,691	26,748
Work-in-progress	19,589	18,889	20,246
Finished goods	16,997	11,347	11,776
Less: provision for write down of inventories to net realizable values	(1,402)	(1,489)	(2,477)
Total	55,599	46,438	56,293

Our total inventories decreased to HK$46.4 million as at 31 December 2008, primarily due to the cautious approach to inventory management we adopted when faced with economic uncertainty at the end of 2008. Our total inventories increased to HK$56.3 million as at 31 December 2009 primarily due to a significant sales increase in the last three quarters of 2009.

The subsequent sales/usage of our inventory as at 31 December 2009 up to 28 February 2010 is approximately HK$55.3 million.

The following table sets forth our average inventory turnover days for the period indicated.

	For the year ended 31 December		
	2007	**2008**	**2009**
Average Inventory Turnover (Days)[(1)]	134.0	104.7	101.3

(1) Average inventory equals net inventory at the beginning of the year plus net inventory at the end of the year, divided by two. Average Inventory Turnover (in days) for the years ending 31 December equals average inventory divided by cost of sales for the relevant year and the multiplied by 365 days.

The decline of average inventory turnover days from 134.0 days for the year ended 31 December 2007 and to 104.7 days as at the year ended 31 December 2008 was primarily attributable to cautious inventory management at the end of 2008 in response to the global economic crisis and slower customer demand. The decrease in average inventory turnover days from 104.7 days for the year ended 31 December 2008 to 101.3 days for the year ended 31 December 2009 was primarily attributable to better operational efficiency achieved by us as our business grew in the last three quarters of 2009.

TRADE AND OTHER RECEIVABLES

The table below sets forth a breakdown of our trade and other receivables as at the balance sheet dates indicated.

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	59,321	73,516	132,249
Less: provision for impairment of trade receivables	(1,553)	(1,671)	(1,622)
Trade receivables – net	57,768	71,845	130,627
Amounts due from related parties[1]	131	3,151	997
Bills receivables	1,477	11,858	35,207
Prepayments	1,516	330	1,337
Other receivables	1,535	1,525	1,340
	62,427	88,709	169,508

(1) The Directors have confirmed that all outstanding amounts due from related parties as at 31 December 2009 have been subsequently settled before the Listing. For details, please refer to note 25 in the Accountants' Report set out in Appendix I to this prospectus.

Our trade receivables are derived primarily from the sale of our products. Our trade receivables increased from HK$59.3 million as at 31 December 2007 to HK$73.5 million as at 31 December 2008, which was primarily attributable to an increase in products delivered. Our trade receivables increased from HK$73.5 million as at 31 December 2008 to HK$132.2 million as at 31 December 2009, primarily attributable to a significant increase in sales in the last three quarters of 2009.

Our trade receivables as a percentage of revenues were 25.8%, 25.8%, 39.1% as at 31 December 2007, 2008 and 2009, respectively. The increase of our trade receivables as a percentage of our revenue from 31 December 2008 to 31 December 2009 was primarily attributable to increased sales to customers who require longer credit terms, i.e., from 90 days to 105 days.

The table below sets forth an aging analysis of trade receivables (including amounts due from related parties of trading in nature) as at the balance sheet dates indicated.

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables			
Within 30 days	13,062	11,559	50,550
31 to 60 days	12,514	25,717	36,258
61 to 90 days	19,110	22,475	23,681
91 to 180 days	9,487	8,857	17,821
181 to 365 days	2,830	1,111	1,163
Over 365 days	2,336	3,902	2,776
	59,339	73,621	132,249

We typically offer an average credit period of 30 to 105 days to our trade customers. In practice, however, our overall effective credit period granted to customers is usually longer than the stated policy for a couple of reasons. First, many of our large customers in general make payment once a month. Within any particular month, we need to wait until the respective payment dates after account receivables are due. This generally prolongs the average credit period by an additional 15 days. In addition, many times we also encounter delays in payment by customers due to delivery and billing record verifications or return material authorizations, which ranges from a few days up to two months. Before accepting new customers, we assess the potential customer's credit quality and define its credit limits based on an investigation of its historical credit records. The Group endeavors to continue to monitor the payments made (or failure to make payment) by its customers to ensure that it is in a position to determine the collectability of its trade receivables. The Group has adopted the following measures to improve the time within which it can collect its trade receivables:

(a) to expedite the process of delivery and billing record verification with customers;

(b) to shorten the average time required for return material authorizations requests;

(c) to tighten credit control for those small customers with poor credit status (such as ceasing to make delivery until full payment of due account receivables); and

(d) to review account receivables on a monthly basis to identify high risk customers who fail to settle their accounts within the relevant credit period.

Trade receivables at the balance sheet dates mainly consist of amounts receivable from sales of our products. No interest is charged on the trade receivables.

As at 31 December 2007, 2008 and 2009, we had trade receivables outstanding over 90 days amounting to HK$14.7 million, HK$13.9 million, and HK$21.8 million, respectively. The decrease in trade receivables outstanding over 90 days from 31 December 2007 to 31 December 2008, was primarily attributable to a reduction of accounts receivables over 90 days with a few large account customers. The increase in trade receivables outstanding over 90 days from 31 December 2008 to 31 December 2009 was primarily attributable to increased sales to a customer overseas aided by sales to smaller customers in China and overseas.

As at 31 December 2007, 2008 and 2009, we had trade receivables outstanding more than 60 days but within 90 days amounting to HK$19.1 million, HK$22.5 million and HK$23.7 million, respectively. The increase in trade receivables outstanding more than 60 days but within 90 days from 31 December 2007 to 31 December 2008, was primarily attributable to the increase of accounts receivables over 60 days but within 90 days with one large customer. The increase in trade receivables outstanding more than 60 days but within 90 days from 31 December 2008 to 31 December 2009 was primarily attributable to the increase of such trade receivables from domestic customers.

As at 31 December 2007, 2008 and 2009, we had trade receivables outstanding more than 30 days but within 60 days amounting to HK$12.5 million, HK$25.7 million and HK$36.3 million, respectively. The increase in trade receivables outstanding more than 30 days but within 60 days from 31 December 2007 to 31 December 2008, was primarily attributable to the increase of trade receivables of two large customers. The increase in trade receivables outstanding more than 30 days but within 60 days from the year ended 31 December 2008 to 31 December 2009 was primarily attributable to increasing sales to customers in China.

As at 31 December 2007, 2008 and 2009, we had trade receivables outstanding less than 30 days amounting to HK$13.1 million, HK$11.6 million and HK$50.6 million, respectively. The decrease in trade receivables outstanding less than 30 days from 31 December 2007 to 31 December 2008, was primarily attributable to the decrease of trade receivables of one major customer. The increase in trade receivables outstanding less than 30 days from 31 December 2008 to 31 December 2009 was primarily attributable to increasing sales to customers in China and overseas.

The subsequent settlement up to 28 February 2010 of the trade receivables as at 31 December 2009 amounts to approximately HK$86.4 million.

Included in our trade receivable balance are receivables with aggregate carrying amounts of HK$29.3 million, HK$27.4 million and HK$37.6 million as at 31 December 2007, 2008 and 2009, respectively, which were past due at the reporting date for which we did not provide for impairment loss since there was not a significant change in credit quality.

	For the year ended 31 December		
	2007	**2008**	**2009**
Average Trade Receivables Turnover (Days)[(1)]	83.0	83.1	109.2

(1) Average trade receivables equal trade receivables-net at the beginning of the year plus trade receivables-net at the end of the year divided by two. Average trade receivables turnover days for the years ending 31 December equal average trade receivables-net divided by revenues for the relevant year and multiplied by 365 days.

Average trade receivables turnover days increased slightly from 83.0 days for the year ended 31 December 2007 to 83.1 days for the year ended 31 December 2008. The increase in average trade receivables turnover days from 83.1 days for the year ended 31 December 2008 to 109.2 days for the year ended 31 December 2009 was primarily attributable to increasing sales to customers with longer credit terms, i.e., from 90 days to 105 days.

In practice, however, our overall effective credit period granted to customers is usually longer than the stated policy for a couple of reasons. First, many of our large customers in general make payment once a month. Within any particular month, we need to wait until the respective payment dates after account receivables are due. This generally prolongs the average credit period by an additional 15 days. In addition, many times we also encounter delays in payment by customers due to delivery and billing record verifications or return material authorizations, which ranges from a few days up to two months.

Our bills receivables were HK$1.5 million and HK$11.9 million and HK$35.2 million, as at 31 December 2007, 2008 and 2009, respectively. The sharp rises from 31 December 2007 to 31 December 2008 and from 31 December 2008 to 31 December 2009 were primarily due to the increased portion of our customers' payment in bank acceptance notes (銀行承兑匯票) in China. The subsequent settlement up to 28 February 2010 of the bills receivables as at 31 December 2009 amounts to approximately HK$10.0 million.

The table below sets forth the movement in our provision for bad and doubtful debts for the periods indicated.

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Balance at the beginning of year	1,402	1,553	1,671
Impairment losses recognized on trade receivables	46	22	(52)
Exchange difference	105	96	3
Balance at end of year	1,553	1,671	1,622

Our provision policy for bad and doubtful debts is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on our management's judgment in assessing the ultimate realization of these receivables, including creditworthiness and the past collection history of each customer. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

TRADE AND OTHER PAYABLES AND ACCRUALS

The table below sets forth our trade and other payables and accruals as at the dates indicated.

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	54,329	42,306	68,890
Amounts due to a related party[(1)]	42,002	40,940	33,951
Accrued expenses	6,280	4,603	10,746
Payroll payable	4,614	4,555	6,604
Other payables	1,588	1,423	1,522
Advances from customers	530	256	177
Other taxes payable	439	1,466	1,150
	109,782	95,549	123,040

(1) The Directors have confirmed that the outstanding amounts due to the related party, Shenzhen Kaifa, as at 31 December 2009 will be fully repaid with a portion of the net proceeds of the Global Offering, after netting off the other receivables due from it. For details, please refer to note 25 in the Accountants' Report set out in Appendix I to this prospectus.

Trade payables

Our trade payables are derived primarily from the purchase of raw materials. Our trade payables represent amounts payable in connection with the purchase of materials necessary for our production and other raw materials from various suppliers. Our oversea suppliers typically grant us credit terms ranging from zero days to 60 days while our domestic suppliers grant us credit terms ranging from 30 to 90 days from the date of issuance of invoices with respect to our trade payables. In practice, however, our overall effective number of trade payables turnover days is usually longer than the stated policy we obtained from our suppliers, particularly domestic suppliers, for a couple of reasons. First, we in generally make payments to our suppliers once a month. Within any particular month, our suppliers need to wait until the respective payment dates after our account receivables are due. This generally prolongs the average payment period by an additional 15 days. In addition, many times we also have delay payment for reasons such as delivery and billing record verifications or return material authorizations, which ranges from a few days up to three months. Our trade payables were HK$54.3 million, HK$42.3 million, and HK$68.9 million as at 31 December 2007, 2008 and 2009, respectively. As at 31 December 2007, 2008 and 2009, our trade payables as a percentage of our cost of sales were 40.0%, 23.8%, and 37.2%, respectively. The decrease of our trade payables as a percentage of our cost of sales from 31 December 2007 to 31 December 2008 was mainly due to the fewer purchases we made toward the end of 2008 in response to a slower business environment which led to a smaller trade payable balance at the end of 2008. The increase of our trade payables as a percentage of our cost of sales from 31 December 2008 to 31 December 2009 was mainly due to growing purchases of materials following increasing customer purchase orders.

The following table sets forth our average trade payables turnover days for the period indicated.

	For the year ended 31 December		
	2007	**2008**	**2009**
Average Trade Payables Turnover (Days)[(1)]	144.6	99.1	109.6

(1) Average trade payables equal trade payables at the beginning of the year plus trade payables at the end of the year divided by two. Average trade payables turnover days for the years ending 31 December equal average trade payables divided by cost of sales for the relevant year and multiplied by 365 days.

Our average trade payables turnover days decreased from 144.6 days as at the year ended 31 December 2007 to 99.1 days at the year ended 31 December 2008, primarily due to the slower business conditions at the end of 2008 which led to fewer purchases and a smaller trade payable balance. Our average trade payables turnover days increased from 99.1 days as at the year ended 31 December 2008 to 109.6 days as at the year ended 31 December 2009, primarily due to an increase in purchases of materials in response to business growth.

The subsequent settlement up to 28 February 2010 of the trade payables as at 31 December 2009 amounts to approximately HK$30.9 million.

Other payables and accruals

Our other payables and accruals decreased from HK$55.5 million as at 31 December 2007 to HK$53.2 million as at 31 December 2008, primarily due to a decrease in accrued expenses and amounts due to related parties. Our other payables and accruals increased from HK$53.2 million as at 31 December 2008 to HK$54.2 million as at 31 December 2009, which was primarily attributable to a decrease in amounts due to related parties, partially offset by increases in accrued expenses and payroll payable.

The amount due to related parties as at 31 December 2009 represents amounts due to Shenzhen Kaifa for rent and other expenses borne by Shenzhen Kaifa on our behalf in the period following our formation as a joint venture between a wholly-owned subsidiary of Shenzhen Kaifa and Mandarin IT Fund I. We plan to repay the amounts due to Shenzhen Kaifa with a portion of the net proceeds of the Global Offering.

The subsequent recognition as revenue of amounts advanced from customers as at 31 December 2009 up to 28 February 2010 amounts to approximately HK$48,000.

PLEDGED BANK BALANCES

We had pledged bank balances of HK$53.4 million, nil, and nil as at 31 December 2007, 2008 and 2009.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surpluses, general financial conditions, contractual restrictions and other factors our Directors consider relevant. In addition, our Controlling Shareholders will be able to influence our dividend policy.

Our operations are conducted primarily through our PRC subsidiary and any dividend we would pay would be from the proceeds of a dividend to us from our PRC subsidiary. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require FIEs, such as our subsidiary in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

We currently do not plan to distribute a regular dividend following the Listing. If our growth continues as we expect, all of our cash on hand as well as the net proceeds from the Global Offering will be utilized as described in the section headed "Use of Proceeds" in this prospectus and otherwise to expand our business. In the future, however, subject to the factors described above, when our cash on hand exceeds our expected needs for operations and to grow our business, the Board will revisit the Company's dividend policy.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company has not been involved in any significant business transactions since it was incorporated on 12 November 2009. As at 31 December 2009, the Company had an amount due from related party balance of HK$0.01 and a share capital of HK$0.01. Except for otherwise disclosed in this prospectus, the Company had no other assets, liabilities or distributable reserve as at 31 December 2009.

PROPERTY INTEREST

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property held by the Group, as at 31 January 2010. The text of its letter, summary of valuation and valuation certificates are set out in "Appendix IV – Property Valuation" to this prospectus.

A reconciliation of the net carrying value of the relevant property interests, as at 31 December 2009 to their fair value as at 31 January 2010 as stated in "Appendix IV – Property Valuation" to this prospectus is as follow:

	Properties – Land use right
	HK$'000
Net carrying value as at 31 December 2009	28,396
Movements for the period from 1 January 2010 to 31 January 2010 (unaudited)	
– Additions	–
– Amortisation	(50)
– Exchange difference	71
Net carrying value at 31 January 2010 (unaudited)	28,417
Valuation deficit as at 31 January 2010	(28,417)
Valuation as at 31 January 2010 as per Appendix IV to this prospectus	–

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

Our Directors forecast that, in the absence of unforeseeable circumstances and on the basis and assumptions set out in "Appendix III – Profit Forecast" to this prospectus, the forecast of our consolidated profit attributable to our equity holders for the six months ending 30 June 2010 will not be less than HK$65.9 million.

The forecast consolidated profit attributable to our equity holders for the six months ending 30 June 2010 prepared by our Directors is based on a forecast of our consolidated results for the six months ending 30 June 2010. The profit forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by us as set out in Note 2.2 of Section II in "Appendix I – Accountants' Report" to this prospectus.

We have undertaken to the Hong Kong Stock Exchange that our interim report for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of our Group attributable to equity holders of our Company as at 31 December 2009 as if the Global Offering had taken place on 31 December 2009.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 31 December 2009 or at any future dates following the completion of the Global Offering.

	Audited combined net tangible assets attributable to equity holders of our Company as at 31 December 2009[(1)]	**Estimated net proceeds from the Global Offering[(2)]**	**Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company**	**Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company per Share[(3)]**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$2.17 per Share	187,885	375,990	563,875	0.73
Based on an Offer Price of HK$2.90 per Share	187,885	512,146	700,031	0.91

Notes:

(1) The audited combined net tangible assets attributable to equity holders of our Company as at 31 December 2009 has been extracted from the Accountants' Report set out in Appendix I to this prospectus which is based on the audited combined net assets of our Group attributable to equity holders of our Company of HK$188.4 million with an adjustment for the intangible assets of HK$0.5 million.

(2) The estimated net proceeds from the Global Offering are based on the Indicative Offer Price range of HK$2.17 per Share and HK$2.90 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares that may be issued pursuant to any exercise of the options granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 773,095,240 Shares were in issue assuming that the Global Offering had been completed on 31 December 2009 but takes no account of any Shares which may be issued upon exercise of the options granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate to Issue Shares or General Mandate to Repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(4) By comparing the valuation of our Company's property interests of nil as set out in Appendix IV to this prospectus and the unaudited net book value of these properties as at 31 January 2010, the net valuation deficit is approximately HK$28.4 million, which has not been included in the above net tangible assets attributable to equity holders of our Company as at 31 December 2009. The revaluation of the Group's property interests will not be incorporated in the Group's financial information. If the revaluation deficit is to be included in the Group's financial information, a reduced amortization charge of approximately HK$0.6 million per annum related to land use right would be recorded.

(5) No adjustments have been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2009.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Rate Risk

Our exposure to foreign exchange risk is attributable to the trade and other receivables, bank balance, trade and other payables, bank loans, and recognized assets and liabilities which are denominated in currencies other than the functional currency of the entity to which they relate (mainly Hong Kong dollars and US dollars). We currently do not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Since the Hong Kong dollar is pegged to the US dollar, we do not expect any significant movements in the Hong Kong dollar/US dollar exchange rate. Fluctuations in the exchange rates between RMB and the Hong Kong dollar/US dollar may adversely affect the value, translated or converted into HK dollars or US dollars, of our net assets, earnings and profits. For the sensitivity analysis of an increase or decrease of 5% in RMB against the Hong Kong dollar and the US dollar as at 31 December 2007, 2008 and 2009, respectively, please refer to "Appendix I – Accountants' Report" of this prospectus for more details.

Interest Rate Risk

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on our results for the current reporting period and in future years. Our exposure to interest rate risk from fluctuations in interest rates is mainly attributable to borrowings that are subject to variable interests rates. Management considers the exposure to interest rates on these borrowings to be limited. A one base-point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates. The effect of a one base-point change in interest rate, with all other variables held constant, would not have had a significant effect on our profit for each of the three years ended 31 December 2007, 2008 and 2009.

Credit Risk

Credit risk refers to the risk that we will suffer loss if our debtors default on their obligations to repay the amounts owing to us. The carrying amounts of trade and other receivables, cash and cash equivalents, and pledged deposits with banks represent our maximum exposure to credit risk in relation to financial assets.

To manage the credit risk in relation to trade and other receivables, we have adopted procedures in extending credit terms to customers and in monitoring their credit risk. Our current credit practices include assessing customers' credit reliability and periodically reviewing their financial status to determine credit limits to be granted. The credit risk with respect to cash and cash equivalents and deposits with banks is limited because we place all bank deposits in state-owned financial institutions in the PRC or reputable banks which are high-credit-quality financial institutions in both the PRC and Hong Kong. The maximum exposure to credit risk in the event that counterparties fail to perform their obligations as at the end of the year in relation to each class of recognized financial assets is the carrying amount of those assets as stated in our balance sheets.

Management is of the view that we do not have significant concentrations of credit risk because exposure is spread over a large number of counterparties and customers.

Liquidity Risk

We are exposed to minimal liquidity risk as a substantial portion of our financial assets and financial liabilities are due within one year and we can finance our operations from existing funds and internally generated cash flows. We monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our operations and mitigate the effects of fluctuations in cash flows. In addition, Management maintains flexibility in funding through having available source of bank financing.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 25 of our Accountants' Report in Appendix 1 to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or on terms no less favorable to our Group than terms available to or from Independent Third Parties and were in the ordinary and usual course of our business.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2009 (being the date of our latest audited combined financial results of our Company as set out in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Listing Rules 13.13 to 13.19.

FUTURE PLANS

Please see the section headed "Business – Our Strategies" in this prospectus for a description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting commissions and other estimated offering expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK$2.535 per Share, being the mid-point of the proposed Offer Price range of HK$2.17 to HK$2.90 per Share, will be approximately HK$444.1 million. We intend to apply these net proceeds for the following purposes:

- approximately HK$200.0 million or approximately 45.0% of the net proceeds will be used to finance the construction and build-out of new facilities on land owned by us of approximately 38,000 square meters located in Pingshan New District, Shenzhen City, China;

- approximately HK$34.0 million or approximately 7.7% of the net proceeds will be used to make a payment to Shenzhen Kaifa for rent and other operating expenses borne by Shenzhen Kaifa on our behalf in the period following our formation as a joint venture between a wholly-owned subsidiary of Shenzhen Kaifa and Mandarin IT Fund I;

- approximately HK$40.0 million or approximately 9.0% of the net proceeds will be used for production line expansion and research and development;

- approximately HK$137.0 million or approximately 30.8% of the net proceeds will be used for potential acquisitions; and

- approximately HK$33.1 million or approximately 7.5% of the net proceeds will be used as reserves for our working capital.

In 2007, we purchased approximately 38,000 square meters of land in Pingshan New District, Shenzhen City, China, on which we plan to construct a new facility. We expect to use a portion of that land to construct an 80,000 square meter multi-story facility for our operations and another portion of that land to construct an 18,000 square meter dormitory for our workers. We expect the first phase of the facility will be completed around 31 March 2011. We intend to consolidate all of our manufacturing and other operations at the new facility. After the construction of the planned facility is completed, we expect to transfer our existing operations to the new facility and set up additional production lines and other auxiliary operations at the new facility in stages over a three year period. Upon consummation of such transfer and expansion processes, we expect that the total production capacity at the new facility will be approximately five times our existing production capacity. Our Directors believe that the expansion plan and the related increase in the production capacity will enable us to meet the growing demand for our products in the future. Our senior management team has estimated the required increase in production capacity based on the estimated sales growth in the following five years in light of various factors including, but not limited to, our historical revenue and the demand forecast of 2010 received from our customers and the assumption that the demand for our products and the industry in which we operate will continue to grow at a steady pace. Based on the foregoing, our senior management team has estimated that our production capacity needs to be increased gradually every year and reach approximately five times our existing production capacity by 2014 in order to meet the growing production demands. As mentioned above, we expect that it will take three years to complete the expansion plan and, as a result, the increase in our production capacity will only occur in phases and be expected to be in line with the gradual increase in the future demand of our products as estimated by our senior management team. We believe our plan to construct the new facility will give us the flexibility to expand our business in the future.

The following table sets forth the details of the new production facilities to be constructed and built out on the land owned by us located in Pingshan New District, Shenzhen, China. Please also refer to the section headed "Business – Production – Production Facilities and Capacity" in this prospectus for further details of the expansion plan:

Existing Plant

Phase	Expected completion time of relocation *(Note)*	Plant	Facilities	Square meters occupied	Capacity *(Note)*	Personnel
First Phase	March 2011	Current Plant (to be transferred in the First Phase)	Production-related facilities	7,200	1	1,550
			Other supporting facilities[1]	6,100	–	–
			Grand Total	**13,300**	**1**	**1,550**

Note: We expect our current plant to cease production upon completion of our relocation with the same production capacity to be relocated to the new facility. For indicative purpose only, we assume our existing capacity to be 1.

New Plant

Phase	Expected completion time	Plant	Facilities	Square meters occupied	Capacity	Personnel
First Phase	March 2011	1st New Plant	Production-related facilities	4,560	0.67	1,000
			Other supporting facilities[1]	3,500	–	–
			Sub-total	**8,060**	**0.67**[2]	**1,000**
Second Phase	March 2012	2nd New Plant	Production-related facilities	14,400	2	2,100
			Other supporting facilities[1]	8,000	–	–
			Sub-total	**22,400**	**2**[3]	**2,100**
Third Phase	March 2013	3rd New Plant	Production-related facilities	21,600	3	2,900
			Other supporting facilities[1]	14,000	–	–
			Sub-total	**35,600**	**3**[4]	**2,900**
			Grand Total – excluding existing capacity	**66,060**	**5.67**	**6,000**
			Grand Total – including existing capacity upon relocation to new facility	**79,360**	**6.67**	**7,550**

Notes:

1. "Other supporting facilities" refer to the set up of research and development facilities, office space, laboratory and all equipment, such as air-conditioning and the air-exchange room, air-source and power source and exchange room station, water source location, machine room, machine maintenance room, train room, resting room for operators and all auxiliary equipment for specific rooms (such as clean room and temperature control room).

2. Upon completion of the First Phase and after relocating our existing plant to the new plant, for indicative purpose only, we expect our accumulated capacity upon completion of the First Phase will be 1.67 (which represents the capacity of our existing plant and the expected capacity of our new plant in the First Phase) during the period from March 2011 to March 2012.

3. Upon completion of the Second Phase, for indicative purpose only, we expect our accumulated capacity will be 3.67 (which represents the capacity of our existing plant and the expected capacity of our new plant in the First Phase and the Second Phase) during the period from March 2012 to March 2013.

4. Upon completion of the Third Phase, for indicative purpose only, we expect our accumulated capacity will be 6.67 (which represents the capacity of our existing plant and the expected capacity of our new plant in the First Phase, Second Phase and Third Phase) after March 2013.

The following table sets forth the breakdown on the application of the 9.0% net proceeds for production line expansion and research and development:

	Facilities	Laboratory	Raw Materials	Personnel	Total
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Production Line Expansion and Research and Development	16,000	7,000	6,000	11,000	40,000

Although we have not identified any specific target, we intend to reserve approximately HK$137.0 million, representing approximately 30.8% of our net proceeds from the Global Offering, for future acquisition of companies, businesses, assets or teams for the purpose of enhancing our positions in China and overseas markets, including, without limitation:

- Expanding our technology platforms and product portfolio in the optical networking industry, particularly the next-generation products targeting high-speed transmission including 40G and 100G, and network manageability;

- Expanding our qualified customer base, particularly among the leading optical networking system vendors located around the world; and

- Expanding our manufacturing capacity.

In the absence of suitable acquisition targets, we intend to invest such reserved proceeds to pursue internal growth including, but not limited to, additional facilities for research and development, purchasing plant and equipment, establishing additional sales offices and recruiting more staff.

In the event that the net proceeds exceed HK$444.1 million as a result of the Offer Price setting at the high end of the proposed offer price range, the additional net proceeds of approximately HK$68.0 million will be used for working capital.

In the event that the net proceeds are below HK$444.1 million as a result of the Offer Price setting at the low end of the proposed offer price range, we will receive net proceeds of approximately HK$376.0 million. Under such circumstances, the net proceeds allocated to the above-mentioned uses of proceeds will be reduced on a pro rata basis except for the repayment to Shenzhen Kaifa and the construction and build-out of new facilities in Pingshan New District, Shenzhen City which will not be affected by the net proceeds to be received should the Offer Price is set at the low end of the Proposed Offer Price range.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and other external financing. We currently believe that the net proceeds from the Global Offering, when combined with such alternate sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds of the Global Offering are not immediately applied for the above purposes, we will deposit the net proceeds into interest bearing bank accounts.

In the event that the Over-allotment Option is exercised in full, we will not receive any of the proceeds from the sale of the Over-allotment Shares by the Over-allotment Grantors.

HONG KONG UNDERWRITERS

Joint Lead Managers *(in alphabetical order)*

CLSA Limited
Piper Jaffray Asia Securities Limited

Co-Lead Managers

Sun Hung Kai International Limited

Co-Managers

Tai Fook Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Public Offer

Hong Kong Underwriting Agreement

Our Company is initially offering 19,328,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on the terms and subject to the conditions set out in this prospectus and the Application Forms. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offer is fully underwritten on a several basis by the Hong Kong Underwriters in accordance with their respective commitments as set out in the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon, among other things:

- the listing permission granted by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any options that may be granted under the Share Option Scheme) and the Capitalization Issue having become effective (either unconditionally or subject only to such offer conditions as may be acceptable to the Sole Global Coordinator (for and on behalf of the Hong Kong Underwriters)) on or before the Listing Date (or such later date as the Sole Global Coordinator may (for and on behalf of the Hong Kong Underwriters) agree in writing) and the listing permission not subsequently having been revoked prior to the commencement of trading of the Shares on the HKSE;

- the International Purchase Agreement having been duly executed and delivered and having become unconditional in accordance with its terms; and

- certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed between us (for ourselves and on behalf of the Over-allotment Grantors) and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters)).

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is entitled to terminate the Hong Kong Underwriting Agreement upon the occurrence of any of the following events before 8:00 a.m. on the Listing Date:

(i) there develops, occurs, exists or comes into force:

a. any change or development involving a prospective change or development, or any event or series of events likely to result in or represent a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in stock, credit and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, Japan, the United States, the United Kingdom, the European Union or any other relevant jurisdiction relevant to any member of the Group (the "Relevant Jurisdictions"); or

b. any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

c. any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease (including, but not limited to, SARS, H5N1 and H1N1 and such related/mutated forms), economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, and local, national, regional or international, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)); or

d. (1) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the SEHK, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or (2) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), New York (imposed at the Federal or New York State level or by any other competent Authority), London, the PRC, the European Union, Japan or any other jurisdiction relevant to any member of the Group, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or

e. any change or development involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or

f. any adverse change or prospective adverse change in the earnings, business, business prospects, financial or trading position, or conditions (financial or otherwise) of the Group (including any litigation or claim being threatened or instigated against the Group); or

g. any change or prospective change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

h. an Executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or any of the co-chairmen or the chief executive officer of the Company vacating his office; or the commencement by any regulatory or political body or organization of any investigation or action against a Director or an announcement by any regulatory or political body or organization that it intends to investigate or take any such action; or

i. an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or

j. a valid demand by any creditor for repayment or payment of any of the indebtedness of the Company or any of its subsidiaries or in respect of which the Company or any of its subsidiaries is liable prior to its stated maturity, or any loss or damage sustained by the Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or

k. any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group, the Executive Directors and/or the Controlling Shareholders; or

l. a contravention by any member of the Group of the Listing Rules or applicable laws; or

m. a prohibition on the Company for whatever reason from issuing, allotting, offering or selling the Shares (including the over-allotment shares) pursuant to the terms of the Global Offering; or

n. the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union (or any member thereof) on the PRC or any other jurisdiction relevant to any member of the Group; or

o. any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) by the Company,

and which, individually or in the aggregate in the sole and absolute opinion of the Sole Global Coordinator (on behalf of the Hong Kong Underwriter):

(1) has or will or could reasonably be expected to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or

(2) has or will have or could reasonably be expected to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or

(3) makes or will make or could reasonably be expected to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or

(4) has or will or could reasonably be expected to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has come to the notice of the Sole Global Coordinator:

a. that any statement contained in this prospectus, the Application Forms, the formal notice, any announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect, inaccurate or misleading in any respect or that any forecast, expression of opinion, intention or expectation contained in any of such documents is not fair and honest and based on reasonable assumptions; or

b. any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom; or

c. any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties under the Hong Kong Underwriting Agreement; or

d. any event, act or omission which gives or is likely to give rise to any liability of any of the indemnified parties under the Hong Kong Underwriting Agreement; or

e. any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Purchase Agreement (other than upon any of the Hong Kong Underwriters or the international purchasers); or

f. approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

g. any adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of the Group; or

h. the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Restrictions pursuant to the Listing Rules

(a) Restriction on further issue of Shares by us

Pursuant to Rule 10.08 of the Listing Rules, we will not issue any further shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our securities first commence dealing on the HKSE (whether or not such issue of shares or securities will be completed within 6 months from the commencement of dealing), except pursuant to the Global Offering (including the exercise of the Over-allotment Option, the options to be granted under the Share Option Scheme) or for the circumstances provided under Rule 10.08 of the Listing Rules.

(b) Restriction on disposal of Shares by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholders have undertaken to the Company and the HKSE that, except pursuant to the Global Offering, the Capitalization Issue or the Over-allotment Option and except as permitted under the Stock Borrowing Agreement:

(1) in the period commencing on the date by reference to which disclosure of their shareholdings in the Company is made in this prospectus and ending on the date which is six months from the Listing Date, they shall not dispose of, nor enter into

any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which each of them is shown by this prospectus to be the beneficial owner; and

(2) in the period of six months commencing on the date on which the period referred to in (1) above expires, they shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which each of them is shown by this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that they would cease to be a controlling shareholder (as defined under the Listing Rules) of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have undertaken to the Company and the HKSE that, within the period commencing on the date by reference to which disclosure of their shareholdings in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, they shall:

(1) when any of them pledges or charges any securities in our Company beneficially owned by any of them in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge/charge together with the number of Shares so pledged/charged; and

(2) when any of them receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform our Company in writing of such indications.

The Company has undertaken to the HKSE that as soon as it has been informed of matters referred to in paragraphs (1) and (2) above by the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

(a) Undertaking by us

We have undertaken to each of the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor that the Company shall, and each of the Controlling Shareholders undertakes to the Hong Kong Underwriters to procure that the Company shall, at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the "First Six-month Period"), except pursuant to the Global Offering (including the Over-allotment Option and the Capitalization Issue) not without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), and subject always to the provisions of the Listing Rules, allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or enter into any transaction with the same economic effect as any transaction specified above; or offer to or agree to or announce any intention to effect any transaction specified above.

In the event that our Company does any of the foregoing during the period of six months commencing on the date on which the First Six-month Period expires, our Company shall take all reasonable steps to ensure that any such act, if done, will not create a disorderly or false market in the securities of our Company.

(b) Undertaking by the Controlling Shareholders

Each of the Controlling Shareholders undertakes to us and the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(1) it will not, and shall procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, at any time during the First Six-month Period, save in connection with the Stock Borrowing Agreement (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (ii) enter into any swap or other arrangement that transfers

to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified above, or (iv) offer to or agree to or announce any intention to effect any transaction specified above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

(2) during the First Six-month Period and without prejudice to paragraph (6) below, it will, and will procure that its associates will, comply with all the applicable restrictions and requirements under the Listing Rules on the sale transfer or disposal by it or by any registered holder on its behalf of any Shares or other securities of the Company in respect of which it is or is shown in this prospectus to be the beneficial owner (directly or indirectly);

(3) save in connection with the Stock Borrowing Agreement and without prejudice to paragraph (6) below, neither it nor any of irrespective associate or companies controlled by it has any present intention of disposing of any Shares or other securities of the Company in respect of which it is, or is shown in this prospectus to be the beneficial owner (or any beneficial interest therein) during the First Six-month Period;

(4) during the First Six-month Period and without prejudice to paragraph (6) below, in respect of HK Kaifa, HK Kaifa will not, and will procure the shareholder of HK Kaifa not to dispose of, encumber or otherwise create a third party interest in the shares of HK Kaifa and in respect of O-Net Holdings, O-Net Holdings will not, and will procure other shareholders of O-Net Holdings not to dispose of, encumber or otherwise create a third party interest in the shares of O-Net Holdings;

(5) it will not, during the Second Six-month Period, enter into any of the transactions specified in paragraph (1) to (4) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of the Company; and

(6) until the expiry of the Second Six-month period, in the event that it enters into any of the transactions specified in paragraph (1) to (4) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Without prejudice to paragraph (3) above, each of the Controlling Shareholders further undertakes to us, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that it will, at any time within the period commencing on the date of this Agreement and ending on the date which is 12 months after the Listing Date:

(1) upon any pledge or charge in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of the Company beneficially owned by it for a bona fide commercial loan, immediately inform the Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and

(2) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of the Company will be disposed of, immediately inform the Company and the Sole Global Coordinator in writing of such indications.

We agree and undertake to the Sole Global Coordinator, the Sole Sponsor and each of the Hong Kong Underwriters, that, upon receiving such information in writing from the Controlling Shareholders, we shall, as soon as practicable, notify the HKSE and make an announcement in accordance with the Listing Rules.

Indemnity

We, the executive Directors and the Controlling Shareholders have agreed to indemnify the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, their respective affiliates, directors, officers, employees and agents for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that we and the Over-allotment Grantors will enter into the International Purchase Agreement with, among others, the International Underwriters. Under the International Purchase Agreement, subject to the conditions set out therein, the International Underwriters would severally and not jointly agree to purchase the International Offer Shares being offered pursuant to the International Offering. It is expected that the International Purchase Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Purchase Agreement is not entered into, the Global Offering will not proceed.

Under the International Purchase Agreement, the Over-allotment Grantors intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Sole Global Coordinator on behalf of the International Underwriters from the date of the International Purchase Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offer to require the Over-allotment Grantors to sell up to 28,990,000 Over-allotment Shares (representing in aggregate approximately 15% of the Offer Shares initially being offered by us under the Global Offering) in proportion to their respective percentage of shareholding in us, namely, up to 15,230,817 Over-allotment Shares in respect of O-Net Holdings and 13,759,183 Over-allotment Shares in respect of Hong Kong Kaifa.

Commissions and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3% on the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, pursuant to the Hong Kong Underwriting Agreement, we may, in our full discretion, pay to the Global Coordinator an incentive fee equal to 0.5% of the Offer Price for each Hong Kong Offer Share (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering).

We will pay to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) an underwriting commission of 3% on the aggregate Offer Price of the International Offer Shares initially offered under the International Offering and, if the Over-allotment Option is exercised, the Over-allotment Grantors will pay to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) an underwriting commission of 3% on the aggregate Offer Price of the Over-allotment Shares offered and sold pursuant to the exercise of the Over-allotment Option.

The aggregate commissions, fees and expenses, together with the HKSE listing fees, SFC transaction fee, HKSE trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering are estimated to amount to approximately HK$45.9 million (assuming an Offer Price of HK$2.535, which is the mid-point of the indicative Offer Price range and that the Over-allotment Option is not exercised) in total amount and are payable by us.

Hong Kong Underwriters' Interests in our Company

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in the section headed "History and Development" in this prospectus, none of the Hong Kong Underwriters has any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement. Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

PRICING AND ALLOCATION

Offer Price Range

The Offer Price will be not more than HK$2.90 per Offer Share and is expected to be not less than HK$2.17 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the offer price to be determined on the price determination date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

Price Payable on Application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$2.90 for each Hong Kong Offer Share. If the Offer Price is less than HK$2.90 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and the HKSE trading fee attributable to the surplus application monies) will be made to successful applications. See the section headed "Further Terms and Conditions of the Hong Kong Public Offering – 8. Refund of Application Monies" in this prospectus.

Determining the Offer Price

The Offer Price is expected to be fixed by agreement with the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Over-allotment Grantors) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 23 April 2010 and in any event, no later than 24 April 2010.

If for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Over-allotment Grantors) are unable to reach agreement on the Offer Price on or before 24 April 2010, the Global Offering will not proceed.

Reduction in Offer Price Range and/or Number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters) and with our consent (for ourselves and on behalf of the Over-allotment Grantors), considers it appropriate, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, we will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English), Hong Kong Economic Times (in Chinese), the Company's website and the HKSE's website, notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus. If an indicative offer price range is reduced, we will issue a supplemental prospectus updating investors of the change in the indicative offer price together with an update of all financial and other information in connection with such change; extend the period under which the Hong Kong Public Offering was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions; and give potential investors who had applied for the Shares the right to withdraw their applications. Details of the arrangement will then be announced by the Company as soon as practicable.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of the Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the HKSE. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of Offer Price and Basis of Allocations

The Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on 28 April 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee granting listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may fall to be issued pursuant to options granted or to be granted under the Share Options Schemes);

(ii) the Offer Price having been duly agreed between us (for ourselves and on behalf of the Over-allotment Grantors) and the Sole Global Coordinator (on behalf of the Underwriters);

(iii) the execution and delivery of the International Purchase Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Purchase Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such underwriting agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event, not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the HKSE will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be caused to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "Further Terms and Conditions of the Hong Kong Public Offering – 8. Refund of Application Monies" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker or other bank(s) in Hong Kong licensed under the Hong Kong Banking Ordinance.

Share certificates for the Hong Kong Offer Shares are expected to be issued on 28 April 2010 but will only become valid certificates of title at 8:00 a.m. on 29 April 2010, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting – Underwriting Arrangements and Expenses – The Public Offer – Grounds for Termination" in this prospectus has not been exercised.

The Hong Kong Public Offering

We are initially offering 19,328,000 Hong Kong Offer Shares (subject to the re-allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering) at the Offer Price, representing 10% of the 193,280,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the HKSE trading fee) of HK$5 million or less; and

- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the HKSE trading fee) of more than HK$5 million and up to the value of pool B.

Applicants should be aware that applications in pool A and pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 9,664,000 Hong Kong Offer Shares will be rejected.

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, whereby the allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to the following adjustments:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 57,984,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 77,312,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 96,640,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

Subject to the clawback mechanism described above, the Sole Global Coordinator has the discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue.

Our Company, our Directors and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares in the International Offering and to identify and reject indications of interest in the International Offering from investors who have received Shares in the Hong Kong Public Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The International Offering will consist of initially 173,952,000 Shares, and is subject to adjustment and the Over-allotment Option, to be offered by us (a) in the United States to qualified institutional buyers (as such term is defined in Rule 144A under the US Securities Act) pursuant to Rule 144A or another exception from registration under the US Securities Act, and (b) outside the United States (within the meaning of Regulation S under the US Securities Act) in reliance on Regulation S under the US Securities Act, including to professional and institutional investors in Hong Kong.

OVER-ALLOTMENT OPTION

The Over-allotment Grantors are expected to grant to the Sole Global Coordinator (on behalf of the International Underwriters) the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Purchase Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering (i.e. 22 May 2010), to require the Over-allotment Grantors to sell up to an aggregate of 28,990,000 Over-allotment Shares, representing in aggregate approximately 15% of the Offer Shares initially being offered by us under the Global Offering. These Shares will be sold at the same price per Offer Share under the International Offering, to cover, among other things, over allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, a press announcement will be made.

The 193,280,000 Shares initially being offered in the Global Offering will represent approximately 25% of our enlarged share capital immediately after completion of the Capitalization Issue and the Global Offering. As we do not intend to issue new Shares in respect of the Over-allotment Option and any additional Shares that may be required if the Over-allotment Option is exercised by the Sole Global Coordinator (on behalf of the International Underwriters) will be sold by the Over-allotment Grantors in proportion to their respective percentage of shareholdings in us pursuant to the terms of the International Purchase Agreement, the number of Shares initially being offered by us under the Global Offering will remain unchanged.

STOCK BORROWING ARRANGEMENT

For the purpose of covering any over-allocations, the Stabilizing Manager may borrow up to 15,230,817 Shares from O-Net Holdings and up to 13,759,183 Shares from Hong Kong Kaifa, that is an aggregate of 28,990,000 Shares, equivalent to the maximum number of Shares which may be sold upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement expected to be entered into between the Stabilizing Manager, O-Net Holdings and Hong Kong Kaifa on or about the Price Determination Date. The loan of Shares by O-Net Holdings and Hong Kong Kaifa respectively pursuant to the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 10.07(1)(a) of the Listing Rules, which restricts the disposal of Shares by the Controlling Shareholders subsequent to the date of this prospectus, subject to compliance with the following requirements in accordance with the requirements of Rule 10.07(3) of the Listing Rules:

- the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering;
- the maximum number of Shares which may be borrowed from O-Net Holdings must not exceed the maximum number of Shares which may be sold upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to O-Net Holdings or its nominees, as the case may be, on or before the third Business Day following the earlier of (a) the last day for exercising the Over-allotment Option, and (b) the date on which the Over-allotment Option is exercised in full;
- the borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to O-Net Holdings by the Stabilizing Manager in relation to such Stock Borrowing Agreement.

The Over-allotment Grantors

Upon completion of the Reorganization and the Capitalization Issue, the Over-allotment Grantors may sell up to an aggregate of 28,990,000 Over-allotment Shares if the Over-allotment Option is exercised in full.

Stabilization Action

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent a decline in the initial Hong Kong Public Offer prices. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may overallocate or effect transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing from the Listing Date or otherwise subject to compliance with applicable legal and regulatory requirements. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer (i.e. on 22 May 2010). The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold by the Over-allotment Grantors upon exercise of the Over-allotment Option, being 28,990,000 Shares in aggregate, which is approximately 15% of the Offer Shares initially being offered by us under the Global Offering.

The Stabilizing Manager or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

(i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our Shares; and/or

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allocate our Shares; or (2) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of our Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or

(D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager or any person acting for it, which may include a decline in the market price of our Shares.

Stabilization cannot be used to support the price of our Shares for longer than the stabilization period, which begins on the day on which dealings in our Shares commence on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offer (i.e. on 22 May 2010). The stabilization period is expected to expire on or before 22 May 2010. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilizing period in accordance with the Securities and Futures (Price Stabilizing) Rules of the SFO.

Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilization period. Stabilization bids or market purchases effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 29 April 2010, it is expected that dealings in the Shares on the HKSE will commence at 9:30 a.m. on 29 April 2010. The Shares will be traded in board lots of 1,000 Shares.

1. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying are an individual, and:

1. are 18 years of age or older;
2. have a Hong Kong address;
3. are outside of the United States; and

   - are not a legal or natural person of the PRC (except qualified domestic institutional investors).

   If you wish to apply for Hong Kong Offer Shares online through the designated website at **www.eipo.com.hk**, referred to herein as the "**White Form eIPO**" service, in addition to the above you must also:

   - have a valid Hong Kong identity card number; and
   - be willing to provide a valid email address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO**.

If the applicant is a firm, the application must be in the name(s) of the individual member(s), not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Company, the Sole Global Coordinator (for itself and on behalf of the Underwriters) or its agent or nominee, as the Company's agent, may accept it at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We and the Sole Global Coordinator, in its capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Save under circumstances permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying is/are an existing beneficial owner of the Shares, a director, a chief executive or a connected person of our Company or any of its subsidiaries or a person who will become a connected person of our Company or any of its subsidiaries immediately upon completion of the Hong Kong Public Offering, or an associate of any of the above.

You should also note that you may apply for Shares under the Hong Kong Public Offering or indicate an interest for Shares under the International Offering, but may not do both.

2. CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are four channels to make an application for the Hong Kong Offer Shares:

- You may apply for the Hong Kong Offer Shares by using a **white** Application Form. Use a **white** Application Form if you want the Shares issued in your own name;
- Instead of using a **white** Application Form, you may apply for the Hong Kong Offer Shares by means of the **White Form eIPO** by submitting applications online through the designated website at **www.eipo.com.hk**. Use the **White Form eIPO** if you want the Shares issued in your own name;
- You may apply for the Hong Kong Offer Shares by using a **yellow** Application Form. Use a **yellow** Application Form if you want the Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- Instead of using a **yellow** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

3. WHERE TO COLLECT THE PROSPECTUS AND APPLICATION FORMS

You can collect a **white** Application Form and a prospectus from:

a. the following office of the Hong Kong Underwriters:

CLSA Limited	18th Floor, One Pacific Place 88 Queensway Hong Kong
Piper Jaffray Asia Securities Limited	3901B, 39/F, Tower 1 Lippo Centre 89 Queensway Hong Kong
Sun Hung Kai International Limited	12th Floor, CITIC Tower 1 Tim Mei Avenue Hong Kong
Tai Fook Securities Company Limited	25/F, New World Tower 16-18 Queen's Road Central Hong Kong

b. or any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch name	Address
Hong Kong	Bank of China Tower Branch	3/F, 1 Garden Road
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
	Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
	King's Road Branch	131-133 King's Road, North Point
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
New Territories	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II
	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O

Prospectuses and **white** Application Forms will be available for collection at the above places during the following times:

Monday, 19 April 2010 – 9:00 a.m. to 5:00 p.m.
Tuesday, 20 April 2010 – 9:00 a.m. to 5:00 p.m.
Wednesday, 21 April 2010 – 9:00 a.m. to 5:00 p.m.
Thursday, 22 April 2010 – 9:00 a.m. to 12:00 noon

c. You can collect a **yellow** Application Form and a prospectus during normal business hours from 9:00 a.m. on 19 April 2010 till 12:00 noon on 22 April 2010 from the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have the Application Forms and this prospectus available.

4. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

(a) Obtain an Application Form as described in the section headed "– 3. Where To Collect The Prospectus And Application Forms" above.

(b) Complete the Application Form in English in ink, and sign it. There are detailed instructions on each Application Form (including those on the minimum subscription amount and the permitted multiples of Shares that can be applied for). You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

(c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order addressed to "Bank of China (Hong Kong) Nominees Limited – O-Net Communications Public Offer". You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out on the Application Form.

(d) Lodge the Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in paragraph (a) of the section headed "– 7. When May Applications Be Made" below.

In order for an application made on a **yellow** Application Form to be valid:

(i) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant), the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) If the application is made by an individual CCASS Investor Participant:

  (A) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

  (B) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(iii) If the application is made by a joint individual CCASS Investor Participant:

  (A) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card Numbers of all joint CCASS Investor Participants; and

  (B) the participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) If the application is made by a corporate CCASS Investor Participant:

(A) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

(B) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect details or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

5. HOW TO APPLY THROUGH THE WHITE FORM eIPO

(a) If you are an individual and meet the criteria set out in "– Who can apply for the Hong Kong Offer Shares", you may apply through the **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through the **White Form eIPO**, the Shares will be issued in your own name.

(b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.

(c) In addition to the terms and conditions set out in this Prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(d) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated White Form eIPO Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.

(e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

(f) You should give **electronic application instructions** through the **White Form eIPO** at the times set out in the section headed "- 7. When may applications be made – (b) **White Form eIPO**".

(g) You should make payment for your application made by the **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on 22 April 2010, or such later time as described under the section headed "- 7. When May Applications be Made – (e) Effects of Bad Weather Conditions on the Opening of the Application Lists", the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**

(h) Warning: The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. **Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK$2 for each "O-Net Communications (Group) Limited" **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of the "Source of DongJiang – Hong Kong Forest" project initiated by Friends of the Earth (HK).

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **white** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **white** Application Form. See "– 8. How many applications may be made" in this section.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a **CCASS Investor Participant**, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2nd Floor Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are also available for collection from the above address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

(b) Minimum Subscription Amount and Permitted Numbers

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms.

(c) Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either:

a. submit a **white** or **yellow** Application Form; or

b. go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12 noon on 22 April 2010, or such later time as described under the section headed "– 7. When May Applications Be Made – (e) Effect of Bad Weather Conditions on the Opening of the Application Lists" below.

7. WHEN MAY APPLICATIONS BE MADE

(a) Applications on White or Yellow Application Forms

Your completed **white** or **yellow** Application Form, together with payment cheque or banker's cashier order attached addressed to "Bank of China (Hong Kong) Nominees Limited – O-Net Communications Public Offer", should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited listed under the section headed "- 3. Where To Collect The Prospectus And Application Forms" above at the following times:

Monday, 19 April 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Tuesday, 20 April 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Wednesday, 21 April 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Thursday, 22 April 2010	**–**	**9:00 a.m. to 12:00 noon**

Completed **white** or **yellow** Application Forms, together with payment attached, must be lodged by 12 noon on 22 April 2010, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed "(e) Effect of Bad Weather Conditions on the Opening of the Application Lists" below.

(b) White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on 19 April 2010 until 11:30 a.m. on 22 April 2010 or such later time as described under the section headed "(e) Effects of Bad Weather Conditions on the Opening of the Application Lists" (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on 22 April 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the section headed "- (e) Effects of Bad Weather Conditions on the Opening of the Application Lists".

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(c) Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants should input **electronic application instructions** at the following times on the following dates:

Monday, 19 April 2010 – 9:00 a.m. to 8:30 p.m.(1)
Tuesday, 20 April 2010 – 8:00 a.m. to 8:30 p.m.(1)
Wednesday, 21 April 2010 – 8:00 a.m. to 8:30 p.m.(1)
Thursday, 22 April 2010 – 8:00 a.m.(1) to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on 19 April 2010 until 12:00 noon on 22 April 2010 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** will be 12:00 noon on 22 April 2010, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed "(e) Effect of Bad Weather Conditions on the Opening of the Application Lists" below.

(d) Application Lists

The application lists will be open from 11:45 a.m. to 12:00 noon on 22 April 2010, except as provided in the paragraph headed "(e) Effect of Bad Weather Conditions on the Opening of the Application Lists" below.

Applicants should note that cheques or banker's cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

(e) Effect of Bad Weather Conditions on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 22 April 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

8. HOW MANY APPLICATIONS MAY BE MADE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares if and only if you are a nominee, in which case you may make an application as a nominee by (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **white** or **yellow** Application Form. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code for each beneficial owner (or in the case for joint beneficial owners, for each such (joint) beneficial owner). If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

If you apply by means of the **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at **www.eipo.com.hk** and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

For more details, please see the section headed "Further Terms and Conditions of the Hong Kong Public Offering – 5. Multiple Applications" in this prospectus.

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The Offer Price is expected to be fixed by agreement between the Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around 23 April 2010 and, in any event, not later than 24 April 2010. The maximum Offer Price is HK$2.90 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and HKSE trading fee of 0.005%. This means that for every board lot of 1,000 Shares you will pay HK$2,929.27. The Application Forms have tables showing the exact amount payable for numbers of Shares up to 9,664,000 Hong Kong Offer Shares. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

If the Offer Price as finally determined is less than HK$2.17 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and HKSE trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the section headed "– 10. Publication of Results, Dispatch/Collection Of Share Certificates And Refunds Of Application Monies" below.

You must pay the maximum Offer Price and related brokerage, SFC transaction levy and the HKSE trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for the Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form.

If your application is successful, brokerage is paid to participants of the HKSE (or the HKSE, as the case may be), the HKSE trading fee is paid to the HKSE, and the SFC transaction levy is paid to the SFC.

10. PUBLICATION OF RESULTS, DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

The Hong Kong Offer Shares will be allotted after the application lists close. No Hong Kong Offer Shares will be allotted after 30 days from the date of this prospectus.

We expect to announce:

(A) the Offer Price;

(B) the level of applications in the Hong Kong Public Offering;

(C) the level of indications of interest in the International Offering; and

(D) the basis of allotment of the Hong Kong Offer Shares,

on 28 April 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese). The announcement will also be published on the Company's website at **www.o-netcom.com** and the website of the HKSE at **www.hkexnews.hk**.

The Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from the Company's website at **www.o-netcom.com** and the website of the HKSE at **www.hkexnews.hk** from 8:00 a.m. on 28 April 2010 onwards and our designated website for results of allocations at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on 28 April 2010 to 12:00 midnight on 4 May 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;

- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from 28 April 2010 to 1 May 2010;

Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from 28 April 2010 to 30 April 2010 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for Hong Kong Offer Shares – 3. Where to Collect the Prospectus and Application Forms".

Refund cheques for surplus application monies (if any) under **white** or **yellow** Application Forms and share certificates for successful applicants under **white** Application Forms are expected to be posted and/or available for collection (as the case may be) on or around 28 April 2010.

If you apply through the White Form eIPO service and paid the application monies from a single bank account, e-Refund payment instructions (if any) will be dispatched to your application payment bank account on or before 28 April 2010. If you apply through the White Form eIPO service and used multi-bank accounts to pay the application monies, refund cheque (if any) will be dispatched to you on or before 28 April 2010.

Share certificates will only become valid certificates of title at 8:00 a.m. on 29 April 2010 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting -Underwriting Arrangements and Expenses – The Public Offer – Hong Kong Underwriting Agreement – Grounds for Termination" has not been exercised.

For more details on arrangements for the dispatch/collection of share certificates and refunds of application monies, please see the sections headed "Further Terms and Conditions of the Hong Kong Public Offering – 8. Refund Of Application Monies" and "Further Terms and Conditions of the Hong Kong Public Offering – 10. Additional Information For Applicants Applying By Giving Electronic Application Instructions To HKSCC" in this prospectus.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the HKSE are expected to commence on 29 April 2010. The Shares will be traded in board lots of 1,000 Shares each.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the shares on the HKSE as well as the compliance with the stock admission requirements of HKSCC, the shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the shares on the HKSE or any other date HKSCC chooses. Settlement of transactions between participants of the HKSE is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the shares to be admitted into CCASS.

1. GENERAL

(a) If you apply for Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with our Company and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as set out below.

(b) If you give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

(c) If you give **electronic application instructions** to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk**, you will have authorized the designated White Form eIPO Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

(d) In this section, references to "you", "applicants", "joint applicants" and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees or the White Form eIPO Service Provider is applying for Hong Kong Offer Shares, and references to the making of an application shall, if the context so permits, include references to giving an **electronic application instructions** to HKSCC or by submitting an application to the designated White Form eIPO Service Provider through the designated website for the **White Form eIPO** service.

(e) Applicants should read this prospectus carefully, including the terms and conditions set out herein and in the Application Forms or imposed by HKSCC and/or the White Form eIPO Service Provider prior to making any application for Hong Kong Offer Shares.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES

(a) You offer to purchase from us at the Offer Price the number of the Hong Kong Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.

(b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage, the SFC transaction levy and the HKSE trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form on or before 28 April 2010.

Details of the procedure for refunds relating to each of the Hong Kong Public Offering methods are contained below in the paragraphs headed "7. If Your Application For Hong Kong Offer Shares Is Successful (In Whole Or In Part)", "8. Refund Of Application Monies" and "10. Additional Information For Applicants Applying Through Giving **Electronic Application Instructions** To HKSCC" in this section.

(c) Any application may be rejected in whole or in part.

(d) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for a reduction in an indicative offer price range or those provided under section 40 of the Hong Kong Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

(a) The Hong Kong Offer Shares will be allocated after the application lists close. We expect to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allocations of the Hong Kong Offer Shares on 28 April 2010 (a) in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), (b) on our Website at **www.o-netcom.com** and (c) on the HKSE's website at **www.hkexnews.hk**. You should note that our website, and all information contained on our website, does not form part of this prospectus.

(b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on 28 April 2010 in the manner described in the section headed "How to Apply for Hong Kong Offer Shares – 10. Publication Of Results, Dispatch/Collection Of Share Certificates And Refunds Of Application Monies" in this prospectus.

(c) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

(d) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Hong Kong Public Offering are satisfied or the Hong Kong Public Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

(e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. EFFECT OF MAKING ANY APPLICATION

(a) By completing and submitting any application, you:

- **instruct** and **authorize** our Company and/or the Sole Global Coordinator and/or the Hong Kong Underwriters (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by our Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;

- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated or transferred to you, and as required by our Articles of Association;

- **represent**, **warrant** and **undertake** that you (including the persons for whose benefit you are applying for) are not restricted by any applicable laws of Hong Kong or elsewhere from making this application, paying any application monies for, or being allotted or taking up any Offer Shares; the Shares have not been and will not be registered under the US Securities Act and you are outside the United States when completing the Application Form and are not a United States person (as defined in Regulation S under the US Securities Act) or a person to or by whom the allotment of or application for the Hong Kong Offer Shares is made would require the Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong;

- **confirm** that you have received a copy of this prospectus and the relevant Application Form and have only relied on the information and representations contained in this prospectus and the relevant Application Form in making your application, and will not rely on any other information or representation concerning the Company except as set out in any supplement to this prospectus;

- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation other than as provided in this prospectus or the relevant Application Form;

- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via the **White Form eIPO** service;

- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via the **White Form eIPO** service, and that you are duly authorized to sign the Application Form or to give electronic application instruction as that other person's agent;

- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for, taken up, indicated an interest in, received, been placed or allocated (including conditionally and/or provisionally) and will not apply for, take up or indicate any interest in, any Offer Shares in the International Offering, nor otherwise participate in the International Offering;

- **warrant** the truth and accuracy of the information contained in your application;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

- **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

- **authorize** our Company to place your name(s) or HKSCC Nominees, as the case may be, on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your Application Form your wish to collect your refund cheque and share certificates (where applicable) in person);

- **understand** that these declarations and representations will be relied upon by our Company, the Sole Global Coordinator and their respective agents in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application;

- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;

- **agree** with the Company and each Shareholder of the Company to observe and comply with the Cayman Islands Companies Law, the Hong Kong Companies Ordinance and the Memorandum and Articles of Association;

- **agree** that our Company, the Sole Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors and any other parties involved in the Global Offering are not or will not be liable for and that you have not relied upon, the information and representations not so contained in this prospectus and any supplement to this prospectus;

- **agree** that the processing of your application may be done by any of the Company's receiving banker and is not restricted to the bank at which your Application Form was lodged; and

- **agree** to disclose to our Company, our Hong Kong Share Registrar, receiving banker, the Sole Global Coordinator, the Hong Kong Underwriters and their respective advisors and agents any personal data or other information which they require about you or the person(s) for whose benefit you have made the application.

(b) If you apply for the Hong Kong Offer Shares using a **yellow** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) **agree** that:

- all Hong Kong Offer Shares allocated to you shall be issued in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant (as the case may be) in accordance with your election on the Application Form;

- each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion (1) not to accept any or part of such allocated Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allocated Hong Kong Offer Shares for deposit into CCASS, (2) to cause such allocated Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name at your own risk and costs and (3) to cause such allocated Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the share certificate(s) for such allocated Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;

- each of HKSCC and HKSCC Nominees may adjust the number of allocated Hong Kong Offer Shares issued in the name of HKSCC Nominees;

- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and

- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

(c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- **instructed** and **authorized** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and HKSE trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and HKSE trading fee, by crediting your designated bank account; and

- (where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares) in addition to the confirmations and agreements set out in paragraph (a), above, instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **white** Application Form, and the following:

- **agree** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf or your CCASS Investor Participant stock account;

- **undertake** and **agree** to accept the Hong Kong Offer Shares applied for or any lesser number;

- (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the benefit of that other person and that you are duly authorized to give those instructions as that other person's agent;

- **understand** that the above declaration will be relied upon by our Company, our Directors, the Sole Global Coordinator and their respective agents in deciding whether or not to make any allocation of Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;

- **authorize** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allocated in respect of your **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your broker or custodian to give **electronic application instructions** on your behalf;

- **agree** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

- **agree** that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable on or before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday, or public holiday in Hong Kong) which, based on the current expected timetable, is expected to be 29 April 2010, unless a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;

- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

(d) Our Company, the Sole Global Coordinator, the Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.

(e) All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

5. MULTIPLE APPLICATIONS

(a) It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the designated White Form eIPO Service Provider through the **White Form eIPO** service;

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the designated White Form eIPO Service Provider through the **White Form eIPO** service, and that you are duly authorized to sign the Application Form as that other person's agent.

(b) Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- more than one application (whether individually or jointly with other(s)) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the designated White Form eIPO Service Provider through the **White Form eIPO** service;

- both apply (whether individually or jointly with other(s)) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the designated White Form eIPO Service Provider through the **White Form eIPO** service;

- apply on one **white** or **yellow** Application Form (whether individually or jointly with other(s)) or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the designated White Form eIPO Service Provider through the **White Form eIPO**, for more than 50% of the Hong Kong Offer Shares initially being offered for public subscription under the Hong Kong Public Offering (that is, 9,664,000 Shares), as more particularly described in the section entitled "Structure of the Global Offering – The Hong Kong Public Offering"; or

- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Offering or otherwise participate in the International Offering.

(c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

For these purposes:

"Unlisted company" means a company with no equity securities listed on the HKSE. "Statutory control" means you:

- control the composition of the board of directors of that company; or

- control more than half of the voting power of that company; or

- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday, or public holiday in Hong Kong) which, based on the current expected timetable, is expected to be 29 April 2010.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the expiration of the fifth day after the time of the opening of the application lists (being 29 April 2010 based on the current expected timetable), if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who has/have already submitted application(s) may or may not (depending on the information contained in the supplement) be notified that they can withdraw his/her/ their application(s). If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If our Company, the Sole Global Coordinator or the White Form eIPO Service Provider (where applicable) or their respective agents exercise their discretion to reject your application:

We and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the White Form eIPO Service Provider, or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(c) If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **yellow** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you apply have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares in the International Offering. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you agree not to apply for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- you apply for more than 50% of the Hong Kong Offer Shares initially being offered for public subscription under the Hong Kong Public Offering;
- your payment is not made correctly (either in form or amount) or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed correctly and in accordance with the instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;
- either of the Underwriting Agreements do not become unconditional;
- either of the Underwriting Agreements are terminated in accordance with their respective terms; or

- the Company and/or the Sole Global Coordinator (for itself and on behalf of the Underwriters) or their respective agents or nominees believe that by accepting your application, they would violate the applicable securities or other laws, rules or regulations.

7. IF YOUR APPLICATION FOR HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

No temporary document of title will be issued in respect of the Shares.

No receipt will be issued for sums paid on application.

Share certificates will only become valid certificates of title at 8:00 a.m. on 29 April 2010 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" has not been exercised.

(a) If you apply using a white Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **white** Application Form and have indicated your intention in your Application Form to collect your share certificate(s) and/or refund cheque (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect it/them in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on 28 April 2010 or such other date as notified by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) and/or share certificate(s) (where applicable) in person, your refund cheque(s) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on 28 April 2010 by ordinary post and at your own risk.

(b) If you apply using a yellow Application Form:

If you apply for Hong Kong Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on 28 April 2010, or in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **yellow** Application Form for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 28 April 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 28 April 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same procedure as those for **white** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on 28 April 2010, by ordinary post and at your own risk.

(c) If you apply through White Form eIPO:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 28 April 2010, or such other date as notified by our company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** on 28 April 2010 by ordinary post and at your own risk.

If you apply through the White Form eIPO service and paid the application monies from a single bank account, e-Refund payment instructions(if any) will be dispatched to your application payment bank account on or before 28 April 2010; If you apply through the White Form eIPO service and used multi-bank accounts to pay the application monies, refund cheque (if any) will be dispatched to you on or before 28 April 2010.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out in "– 9. Additional Information for Applicants Applying Through **White Form eIPO**".

8. REFUND OF APPLICATION MONIES

Your application monies, or the appropriate portion thereof, together with the related brokerage of 1%, SFC transaction levy of 0.004% and HKSE trading fee of 0.005%, will be refunded if:

- your application is rejected, not accepted or accepted in part only or if you do not receive any Hong Kong Offer Shares for any of the reasons set out above in the section headed "– 6. Circumstances In Which You Will Not Be Allocated Hong Kong Offer Shares" above;

- the Offer Price as finally determined is less than the Offer Price of HK$2.90 per Share (excluding brokerage, SFC transaction levy and HKSE trading fee thereon) initially paid on application;

- the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" in this prospectus; or

- any application is revoked or any allocation pursuant thereto has become void. No interest will be paid thereon. All interest accrued on such monies prior to the date of refund will be retained for our benefit.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on 28 April 2010 in accordance with the various arrangements as described herein. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate. All refunds will be made by a cheque crossed "Account Payee Only" made out to you, or if you are joint applicants, to the first-named applicant. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data will also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund cheque (if any). Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate your refund cheque. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

9. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING THROUGH WHITE FORM eIPO

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you.

Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out in "– 8. Refund of Application Monies" shall be made pursuant to the arrangements described in "– 7. If your application for Hong Kong Offer Shares is successful (in whole or in part) – (c) If you apply through the **White Form eIPO**".

10. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

(b) Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on 28 April 2010, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/ passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Hong Kong Public Offering in the manner as described in the paragraph headed "10. Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies" on 28 April 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 28 April 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on 28 April 2010. Immediately following the credit of the public offer shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Offer Price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and HKSE trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on 28 April 2010. No interest will be paid thereon.

11. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the "Ordinance") came into effect in Hong Kong on 20 December 1996. This personal information collection statement informs the applicant for and holder of the Shares of the policies and practices of our Company and our Hong Kong Share Registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for Hong Kong Offer Shares or registered holders of Hong Kong Offer Shares to supply their latest correct personal data to our Company and our Hong Kong Share Registrar when applying for Hong Kong Offer Shares or transferring Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar. Failure to supply the requested data may result in your application for Hong Kong Offer Shares being rejected or in delay or inability of our Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) and/or e-Refund payment instructions, and/or refund cheque(s) to which you are entitled.

It is important that applicants and holders of Hong Kong Offer Shares inform us and our Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of Hong Kong Offer Shares may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and e-Refund payment instructions/refund cheque, when applicable, verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues (Hong Kong Offer Shares) or transfers into or out of the name(s) of holder(s) of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting in the conduct of signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations (whether statutory or otherwise), the HKSE, the SFC and any other statutory or governmental bodies;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and our Hong Kong Share Registrar to discharge our obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by our Company and our Hong Kong Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and our Hong Kong Share Registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our Company or our respective appointed agents such as financial advisors, receiving banker and overseas principal registrar;

- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);

- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or our Hong Kong Share Registrar in connection with the operation of their business;

- the HKSE, the SFC and any other statutory, regulatory or governmental bodies; or

- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their banker, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC, you agree to all of the above.

(d) Access to and correction of personal data

The Ordinance provides the applicants and holders of securities with rights to ascertain whether our Company or our Hong Kong Share Registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Ordinance, our Company and our Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time in accordance with applicable law, for the attention of the company secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

The following is the text of a report received from the Company's reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to Directors of the Company and to CLSA Equity Capital Markets Limited pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

19 April 2010

The Directors
O-Net Communications (Group) Limited

CLSA Equity Capital Markets Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of O-Net Communications (Group) Limited (the "Company") and the companies now comprising the group (hereinafter collectively referred to as the "Group") set out in Sections I to IV below, for inclusion in the prospectus of the Company dated 19 April 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The Financial Information comprises the combined balance sheets as at 31 December 2007, 2008 and 2009, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1 of Section II headed "General information of the Group and reorganization" (the "Reorganization") below, which was completed on 29 March 2010, the Company became the holding company of the companies now comprising the Group.

As at the date of this report, the Company has direct and indirect interests in the companies now comprising the Group as set out in Note 1 of Section II below. All of these companies are private companies.

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not been involved in any significant business transactions since its date of incorporation other than the Reorganization. The statutory audited financial statements of the companies now comprising the Group during the Relevant Periods have been prepared in accordance with the relevant accounting principles applicable to their respective place of incorporation. Particulars and the names of the statutory auditors of these companies are set out in Note 1 of Section II.

For the purpose of this report, the directors of the Company have prepared combined financial statements of the Company and the companies now comprising the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have audited the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 2.1 of Section II below.

DIRECTORS' RESPONSIBILITY

The directors of the Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information, for the purpose of this report and presented on the basis set out in Note 2.1 of Section II below, gives a true and fair view of the combined state of affairs of the Group as at 31 December 2007, 2008 and 2009 and of the Group's combined results and cash flows for the Relevant Periods.

I FINANCIAL INFORMATION

Combined Balance Sheets

		As at 31 December		
		2007	**2008**	**2009**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Land use right	*6*	27,828	28,949	28,396
Property, plant and equipment	*7*	33,875	38,163	40,157
Intangible assets	*8*	484	587	496
Deferred income tax assets	*15*	830	737	924
		63,017	68,436	69,973
Current assets				
Inventories	*9*	55,599	46,438	56,293
Trade and other receivables	*10*	62,427	88,709	169,508
Pledged bank deposits	*11*	53,396	–	–
Cash and cash equivalents	*11*	12,015	22,979	26,544
		183,437	158,126	252,345
Total assets		246,454	226,562	322,318
EQUITY				
Attributable to equity holders of the Company				
Owners' equity		78,150	106,595	188,381

		As at 31 December		
		2007	**2008**	**2009**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
LIABILITIES				
Current liabilities				
Trade and other payables	*13*	109,782	95,549	123,040
Current income tax liabilities		–	1,740	10,897
Borrowings	*14*	58,522	22,678	–
		168,304	119,967	133,937
Total liabilities		168,304	119,967	133,937
Total equity and liabilities		246,454	226,562	322,318
Net current assets		15,133	38,159	118,408
Total assets less current liabilities		78,150	106,595	188,381

Combined Income Statements

		For the year ended 31 December		
		2007	**2008**	**2009**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*16*	229,703	284,638	338,385
Cost of sales	*17*	(135,714)	(177,885)	(185,137)
Gross profit		93,989	106,753	153,248
Other gains – net	*16*	228	1,171	2,065
Selling and marketing costs	*17*	(17,413)	(18,836)	(17,436)
Research and development expenses	*17*	(18,258)	(21,027)	(16,875)
Administrative expenses	*17*	(32,891)	(36,352)	(31,445)
Operating profit		25,655	31,709	89,557
Finance income	*19*	314	132	44
Finance costs	*19*	(5,138)	(6,990)	(1,094)
Finance costs – net	*19*	(4,824)	(6,858)	(1,050)
Profit before income tax		20,831	24,851	88,507
Income tax expenses	*20*	(531)	(1,854)	(9,347)
Profit for the year attributable to equity holders of the Company		20,300	22,997	79,160
Earnings per share for profit attributable to equity holders of the Company				
– Basic and diluted	*22*	N/A	N/A	N/A

Combined Statements of Comprehensive Income

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Profit for the year	20,300	22,997	79,160
Other comprehensive income:			
Currency translation differences	5,935	4,454	(393)
Total comprehensive income for the year attributable to equity holders of the Company	26,235	27,451	78,767

Combined Statements of Changes in Equity

		Attributable to equity holders of the Company		
	Note	**Other reserves**	**Accumulated earnings/ (deficits)**	**Total equity**
		HK$'000 *Note 12*	*HK$'000*	*HK$'000*
Balance at 1 January 2007		158,324	(89,591)	68,733
Total comprehensive income for the year		5,935	20,300	26,235
Share option scheme – value of services	*26*	7,456	–	7,456
Acquisition of equity interest in O-Net Communications (Shenzhen) Limited and O-Net Communications (HK) Limited by O-Net Communications Holdings Limited	*12(b)*	(24,274)	–	(24,274)
Balance at 31 December 2007		147,441	(69,291)	78,150
Total comprehensive income for the year		4,454	22,997	27,451
Share option scheme – value of services	*26*	2,664	–	2,664
Share issuance costs		(1,670)	–	(1,670)
Balance at 31 December 2008		152,889	(46,294)	106,595
Total comprehensive income for the year		(393)	79,160	78,767
Share option scheme – value of services	*26*	3,656	–	3,656
Share issuance costs		(6,032)	–	(6,032)
Deemed contributions from equity holders of the Company	*12(c)*	5,395	–	5,395
Balance at 31 December 2009		155,515	32,866	188,381

Combined Cash Flow Statements

		For the year ended 31 December		
		2007	**2008**	**2009**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities				
Cash generated from operating activities	*23*	13,320	8,215	35,777
Interest paid		(244)	(1,041)	(525)
Income tax prepaid/paid		–	(238)	(144)
Net cash from operating activities		**13,076**	**6,936**	**35,108**
Cash flows from investing activities				
Purchases of property, plant and equipment and payments for construction-in-progress		(12,655)	(12,522)	(6,116)
Purchase of land use right		(27,035)	–	–
Purchase of intangible assets		(477)	(207)	(44)
Interest received		314	132	44
Proceeds from disposal of property, plant and equipment	*23*	1,895	–	10
Net cash used in investing activities		**(37,958)**	**(12,597)**	**(6,106)**
Cash flows from financing activities				
Payments of share issuance costs		–	(1,670)	(2,796)
Proceeds from borrowings		58,450	22,389	–
Repayments of borrowings		(19,635)	(58,233)	(22,678)
Repayments of amount due to a related party		(45)	–	–
Net (placement)/withdrawal of pledged deposits	*11*	(33,987)	53,396	–
Net cash from/(used in) financing activities		**4,783**	**15,882**	**(25,474)**
Net (decrease)/increase in cash and cash equivalents		(20,099)	10,221	3,528
Cash and cash equivalents at the beginning of the year		31,297	12,015	22,979
Exchange difference		817	743	37
Cash and cash equivalents at the end of the year	*11*	**12,015**	**22,979**	**26,544**

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION

O-Net Communications (Group) Limited (the "Company") was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company. The Company and the companies now comprising the group (the "Group") are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem used in high-speed telecommunications and data communications (the "Listing Business"). The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Prior to incorporation of the Company, the Listing Business was owned by O-Net Communications Limited ("O-Net Cayman"), a company collectively controlled by Mandarin IT Fund I, Mariscal Limited, O-Net Employee Plan Limited ("O-Net Trust"), Mr. Na Qinglin, Mr. Xue Yahong as a group (the "Shareholders Group") and Kaifa Technology (H.K.) Limited (altogether defined as the "Controlling Shareholders"). Apart from the Listing Business, O-Net Cayman is also engaged in design, manufacturing and sale of synthetic crystal, new-style flat display parts and digital cable system television equipment (the "Other Business"). The Other Business has been managed separately by subsidiaries of O-Net Cayman, none of which represented any of the companies now comprising the Group, and is dissimilar from the Listing Business. In addition, separate accounting books and records have been maintained for the Other Business. For the purpose of this report, the financial information of the Other Business was excluded throughout the three years ended 31 December 2007, 2008 and 2009 ("the Relevant Periods").

In preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), a group reorganization (the "Reorganization") was undertaken, pursuant to which the group companies engaged in the Listing Business owned by O-Net Cayman were transferred to the Company. The Reorganization involved the following:

(i) On 6 November 2006, O-Net Communications Holdings Limited ("O-Net BVI") was incorporated in the British Virgin Islands ("BVI"). At the time of its establishment, O-Net BVI was wholly owned by Mr. Na Qinglin. In March 2007, Mr. Na Qinglin transferred all his equity interest in O-Net BVI to O-Net Cayman;

(ii) On 12 March 2007, O-Net BVI entered into agreements to acquire O-Net Cayman's equity interest in O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen") and O-Net Communications (HK) Limited ("O-Net Hong Kong"), the two subsidiaries engaged in the Listing Business at a consideration of Hong Kong dollars ("HK$") 24,274,000;

(iii) On 12 November 2009, the Company was incorporated as a wholly owned subsidiary of O-Net Cayman under the name of "O-Net Communications (Group) Ltd.". Subsequently the name of the Company was changed to "O-Net Communications (Group) Limited";

(iv) On 22 February 2010, the Company acquired the entire equity interest in O-Net BVI from O-Net Cayman in consideration of which the Company (i) credited its one nil-paid share held by O-Net Cayman as fully paid up capital and (ii) issued additional 9,999 shares credited as fully paid in favour of O-Net Cayman. After the transfer, O-Net BVI became a wholly-owned subsidiary of the Company and the Company became the holding company of the Group.

As at the date of this report, the Company has direct or indirect interest in the following subsidiaries:

Name	Date of incorporation	Place of incorporation	Kind of legal entity	Share capital or paid-in capital	Interest held directly	Interest held indirectly	Auditors	Year of audit
O-Net BVI	6 November 2006	BVI	Limited liability company	United States dollars ("US$") 28,991	100%	–	N/A	N/A
O-Net Shenzhen	23 October 2000	Shenzhen, the People's Republic of China (the "PRC")	Limited liability company	HK$85,000,000	–	100%	深圳南方民和會計師事務所 (Shenzhen Nanfang-Minhe Certified Public Accountants)	Years ended 31 December 2007 & 2008
O-Net Hong Kong	25 September 2000	Hong Kong	Limited liability company	HK$1,000,000	–	100%	Gary Cheng & Co., Certified Public Accountants	Years ended 31 December 2007 & 2008

The Company and O-Net BVI were incorporated in countries where there is no statutory requirement to have their financial statements audited. As at the date of this report, no audited statutory financial statements for the year ended 31 December 2009 of the other companies now comprising the Group were available.

2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation

The Controlling Shareholders owned and controlled the companies now comprising the Group before the Reorganization and continue to control these companies after the Reorganization. For the purpose of this report, the Reorganization is considered as a business combination under common control in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information includes the combined financial position, results and cash flows of the companies now comprising the Group as if the existing group structure had been in existence throughout the Relevant Periods or since the respective dates of incorporation/establishment or acquisition, whichever is the shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

2.2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during the Relevant Periods.

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted HKFRSs, which are effective for the accounting periods beginning on or after 1 January 2009 consistently throughout the Relevant Periods.

The following amendment to standards has been issued that are mandatory for accounting periods beginning on 1 January 2010 or after and which the Group has early adopted:

- Amendment to HKFRS 8 'Operating segments'. Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the chief operating decision maker.

The following new standards, amendments to standards and interpretations have been issued that are mandatory for accounting periods beginning on or after 1 July 2009 or later periods and which the Group has not early adopted:

- HKAS 27 (Revised), "Consolidated and Separate Financial Statements". The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKFRS 1 (Amendment), "First time adoption of HKFRS" and HKAS 27 "Consolidated and separate financial statements". The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

- HKFRS 3 (Revised), "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 5 (Amendment), "Non-current assets held for sale and discontinued operations" (and consequential amendment to HKFRS 1, "First-time adoption"). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

- HKFRS 2 (Amendment), "Share-based payment". The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management does not anticipate the adoption will result in a material impact on the Group's financial statements.

- HKFRS 9 "Financial Instruments" (effective from 1 January 2013). Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The expected impact of this new standard is still being assessed in details by management, but management does not anticipate that the application will result in a material impact on the Group's financial statements.

- There are a number of minor amendments to HKFRS 7, "Financial instruments: Disclosures", HKAS 8, "Accounting policies, changes in accounting estimates and errors", HKAS 10, "Events after the balance sheet date", HKAS 18, "Revenue", HKAS 34, "Interim financial reporting", "HK(IFRIC) 17 "Distribution of non-cash assets to owners" and HK(IFRIC) 18 "Transfer of assets from customers" which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

- In 2009, the HKICPA published certain improvements to HKFRSs which will be effective for period beginning on or after 1 July 2009 or 1 January 2010. These improvements have not been early adopted by the Group. Amendments have been made to the following standards according to the improvements:

  HKAS 1 (Amendment) Presentation of financial statements
  HKAS 7 (Amendment) Statement of cash flows
  HKAS 17 (Amendment) Leases
  HKAS 18 (Amendment) Revenue
  HKAS 36 (Amendment) Impairment of assets
  HKAS 38 (Amendment) Intangible assets
  HKAS 39 (Amendment) Financial instruments: Recognition and measurement
  HKFRS 2 (Amendment) Share-based payment
  HKFRS 5 (Amendment) Non-current assets held for sale and discontinued operations
  HKFRS 8 (Amendment) Operating segments
  HK(IFRIC)-Int 9 (Amendment) Reassessment of embedded derivatives
  HK(IFRIC)-Int 16 (Amendment) Hedges of a net investment in a foreign operation

  The Group is in the process of making an assessment of the impact of these new/revised standards, amendments and interpretations to existing standards and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position.

2.2.1 Consolidation and combination

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, which qualify as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

For the acquisition of subsidiaries which do not qualify as business combination, the fair value of the consideration transferred, including transaction cost is allocated to assets acquired and liabilities assumed based on their relative fair value. The assets acquired include intangible assets that are recognized separately. No goodwill arises on such transactions.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combination under common control

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the earliest date presented or when they first came under common control, whichever is the later.

Intra-group transactions, balances and unrealized gains on transactions between the combining entities or businesses are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management team, including the chairman and the chief executive officer, that makes strategic decisions.

2.2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The functional currency of the Company is Chinese Renminbi Yuan ("RMB"). The Financial Information is presented in HK$, which is the Group's presentation currency, as the directors consider that such presentation is more appropriate for a company to be listed in Hong Kong and for the convenience of the shareholders.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the combined income statements.

(c) Group companies

The results and financial positions of the companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet of the companies now comprising the Group are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement of the companies now comprising the Group are translated at average exchange rates; and
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation or combination, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders'/equity holders' equity.

2.2.4 Land use right

Land use right is up-front payments to acquire long-term interests in the usage of land. It is stated at cost and charged to the combined income statements over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the combined income statements during the Relevant Periods in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values which is 0%-5% of the cost over their estimated useful lives, as follows:

Machinery	5-10 years
Motor vehicles	5 years
Furniture, fitting and equipment	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within other gains – net in the combined income statements.

2.2.6 Intangible assets

(a) Patent

Patent represents purchased technology from a third party. It has a finite life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over its estimated useful life of 7 years.

(b) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line method over their estimated useful lives of 5 years.

2.2.7 Impairment of non-financial assets

Assets of the Group that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.2.8 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group only has financial assets classified as "loans and receivables" during the Relevant Periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, cash and cash equivalents and pledged bank deposits in the combined balance sheets.

(b) Recognition and measurement

Regular way, purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.2.10.

2.2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the combined income statements. When a trade receivable is uncollectible it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the combined income statements.

2.2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.2.12 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the combined income statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the respective balance sheet date.

2.2.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the combined income statements in the year in which they are incurred.

2.2.15 Current and deferred income tax

The tax expenses for the Relevant Periods comprise current and deferred tax. Tax is recognized in the combined income statements, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.2.16 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement benefit plans are expensed in the combined income statements as incurred.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation scheme, under which the entity receives the services from eligible participants as consideration for equity instruments (options). Eligible participants include any directors, employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Company or a company in which the Company holds an interest or a subsidiary of such company. The shares authorized for the issuance of options are the shares of a shareholder of the Company held by O-Net Trust (see Note 26 for more details). The share options granted by O-Net Trust are accounted for in accordance with HK(IFRIC) 11 "HKFRS 2 – Group and treasury share transactions". The fair value of the services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions and excluding the impact of any service and non-market performance vesting conditions and any non-vesting conditions. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions.

2.2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognized when the risk and rewards of the goods have been transferred to the customer and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

2.2.18 Research and development costs

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) the management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually.

2.2.19 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the combined income statements on a straight-line basis over the period of the lease.

2.2.20 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the combined income statements as other gain over the period necessary to match them with the costs they are intended to compensate.

2.2.21 Dividend distribution

Dividend distribution to the Group's equity holders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's equity holders.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Financial risk factor

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from future commercial transactions, recognized assets and liabilities which are denominated in foreign currencies. The majority of the Group's foreign currency transactions and balances are denominated in US$ and HK$. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2007, 2008 and 2009 are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Assets *(Note 10, 11)*			
US$	46,609	63,209	90,990
HK$	498	2,311	1,495
Japanese Yen ("JPY")	23	23	3,202
Euro	1	1	–
Liabilities *(Note 13)*			
US$	18,603	8,661	16,664
HK$	6,274	4,259	7,282
Euro	–	–	17

The following table shows the sensitivity analysis of an increase/decrease of 5% in RMB against the major foreign currencies at 31 December 2007, 2008 and 2009 respectively. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

If there is a 5% increase in RMB against US$ and HK$, the major foreign currencies which the Group has engaged its transactions with, the effect in the profit before income tax is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
US$			
Decrease in profit before income tax	1,220	2,533	3,421
HK$			
Increase in profit before income tax	37	13	27

If there is a 5% decrease in RMB against US$ and HK$, the major foreign currencies which the Group has engaged its transactions with, the effect in the profit before income tax is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
US$			
Increase in profit before income tax	1,220	2,533	3,421
HK$			
Decrease in profit before income tax	37	13	27

(b) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings which are at floating rates, and expose the Group to cash flow interest-rate risk.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

For the years ended 31 December 2007, 2008 and 2009, if interest rates on borrowings had been one base-point higher/lower with all other variables held constant, profit before income tax for the year would have been HK$38,000, HK$205,000, and HK$181,000, lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) *Price risk*

As at 31 December 2007, 2008 and 2009, the Group did not hold equity securities traded publicly. It is not exposed to commodity price risk.

(d) *Credit risk*

The Group is exposed to credit risk in relation to its pledged bank deposits, cash and cash equivalents and trade and other receivables.

The carrying amounts of pledged bank deposits, cash and cash equivalents and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

For pledged bank deposits and cash and cash equivalents, management manages the credit risk by placing all bank deposits in state-owned financial institutions in the PRC or reputable banks which are high-credit-quality financial institutions in both the PRC and Hong Kong.

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectation.

(e) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding through an adequate amount of available financing, including short-term bank loans.

Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available source of bank financing.

As at 31 December 2007, 2008 and 2009, the Group's financial liabilities were all due within 12 months from the balance sheet date. Their contractual amounts to be paid approximate to their carrying amounts as shown in the combined balance sheets.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains consistent throughout the Relevant Periods.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity owners, issue new shares or sell assets to reduce debt.

The Group monitors its capital risk based on the debt-to-equity ratio. This ratio is calculated by dividing the net debt by the total owners' equity.

The debt-to-equity ratios as at 31 December 2007, 2008 and 2009 are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Total borrowings *(Note 14)*	58,522	22,678	–
Financing from a related party *(Note 25(d)iii)*	31,924	33,897	33,951
Less: cash and cash equivalents *(Note 11)*	(12,015)	(22,979)	(26,544)
Net debt	78,431	33,596	7,407
Total owners' equity	78,150	106,595	188,381
Debt-to-equity ratio	100.4%	31.5%	3.9%

3.3 Fair value estimation

The Group adopts the amendments to HKFRS 7 "Financial instruments: Disclosures" for financial instruments that are measured in the combined balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

– Quoted price (unadjusted) in active markets for identical assets or liabilities.

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 31 December 2007, 2008 and 2009, the Group did not have any assets or liabilities that were measured at fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements used in preparing the Financial Information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below:

4.1 PRC enterprise income tax and deferred taxation

The Group's subsidiary that operates in the PRC is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

4.2 Estimation on impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

4.3 Write-downs of inventories to net realizable value

The Group writes down inventories to net realizable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realized. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

4.4 Recognition of share-based compensation expenses

As explained in Note 26, share options to subscribe shares of O-Net Cayman/O-Net Holdings (BVI) Limited ("O-Net Holdings") were granted to the Group's employees, directors and sales distributors. The exercise price of all the option grants is zero, and certain of these options granted are only exercisable upon an effective initial public offering of shares of the Company ("IPO").

The fair values of these options are determined with reference to the fair value of the Listing Business, which are ascertained by the directors of the Company by using the discounted cash flows, after applying an appropriate marketability discount. Significant judgement on various parameters adopted in the compilation and estimation of the discounted cash flow, such as profit projections, discount rate, risk-free interest rate, and volatility, is required to be made by the directors.

In addition, for options which are only exercisable upon an IPO, the directors are required to estimate an expected IPO date upon the respective option grants in order to determine the vesting period of the options and the related amortization of share-based payment expenses to be recognized in each accounting period. Such estimates have to be revised at the end of each accounting period by the directors, with necessary true-up be reflected in the financial statements when there is a change.

As at 31 December 2009, the estimated IPO date of all outstanding options granted, which are exercisable upon IPO of the Company, had been assumed to be on 30 April 2010. Should the actual IPO date of the Company differ from 30 April 2010, revisions to share based payment expenses would be required to be reflected in subsequent financial statements.

5 SEGMENT REPORTING

The chief operating decision-maker has been identified as the senior executive management of the Company. The chief operating decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The senior executive management team considers that the business of the operating performance of Group is assessed by its different product lines, including wavelength management, transmission management, power management, signal conditioning and monitoring management and others. They have been adopted for the determination of the operating segments for financial reporting purposes. The reportable operating segments derive their revenue from manufacturing and sales of the respective products.

Other operating segments mainly include the manufacture and sales of other optical and fiber products, which are not included within the reportable operating segments, as they are not included in the reports provided to the chief operating decision-maker. The results of these operations are included in the "All other segments" column.

The senior executive management team assesses the performance of the operating segments based on a measure of gross profit, which is determined by using the accounting policies which are the same as disclosed in Note 2.2 of Section II. The Group does not allocate operating costs or assets to its segments, as its chief operating decision-maker does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of profit for each reportable segment and total assets.

(a) The segment information provided to the senior executive management for the reportable segments for the year ended 31 December 2007 is as follows:

	Wavelength management	Transmission management	Power management	Signal conditioning and monitoring management	All other segments	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total revenue (all from external customers)	86,156	53,843	77,201	5,627	6,876	–	229,703
Cost of sales	(47,210)	(29,304)	(50,116)	(3,941)	(5,143)	–	(135,714)
Gross profit	38,946	24,539	27,085	1,686	1,733	–	93,989
Other gains – net						228	228
Selling and marketing costs						(17,413)	(17,413)
Research and development expenses						(18,258)	(18,258)
Administrative expenses						(32,891)	(32,891)
Operating profit						25,655	25,655
Finance costs – net						(4,824)	(4,824)
Profit before income tax						20,831	20,831
Income tax expenses						(531)	(531)
Profit for the year						20,300	20,300

(b) The segment information provided to the senior executive management for the reportable segments for the year ended 31 December 2008 is as follows:

	Wavelength management	Transmission management	Power management	Signal conditioning and monitoring management	All other segments	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total revenue (all from external customers)	83,474	73,251	109,866	6,461	11,586	–	284,638
Cost of sales	(50,891)	(42,332)	(70,448)	(5,697)	(8,517)	–	(177,885)
Gross profit	32,583	30,919	39,418	764	3,069	–	106,753
Other gains – net						1,171	1,171
Selling and marketing costs						(18,836)	(18,836)
Research and development expenses						(21,027)	(21,027)
Administrative expenses						(36,352)	(36,352)
Operating profit						31,709	31,709
Finance costs – net						(6,858)	(6,858)
Profit before income tax						24,851	24,851
Income tax expenses						(1,854)	(1,854)
Profit for the year						22,997	22,997

(c) The segment information provided to the senior executive management for the reportable segments for the year ended 31 December 2009 is as follows:

	Wavelength management	Transmission management	Power management	Signal conditioning and monitoring management	All other segments	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total revenue (all from external customers)	75,786	114,104	128,568	6,183	13,744	–	338,385
Cost of sales	(38,481)	(56,138)	(73,244)	(3,356)	(13,918)	–	(185,137)
Gross profit	37,305	57,966	55,324	2,827	(174)	–	153,248
Other gains – net						2,065	2,065
Selling and marketing costs						(17,436)	(17,436)
Research and development expenses						(16,875)	(16,875)
Administrative expenses						(31,445)	(31,445)
Operating profit						89,557	89,557
Finance costs – net						(1,050)	(1,050)
Profit before income tax						88,507	88,507
Income tax expenses						(9,347)	(9,347)
Profit for the year						79,160	79,160

(d) Revenue from external customers in the PRC, Europe, North America and other Asia countries excluding the PRC is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
The PRC	61,640	97,525	165,697
Europe	83,597	77,972	61,025
North America	23,362	79,297	40,587
Other Asia countries excluding the PRC	61,104	29,844	71,076
	229,703	284,638	338,385

(e) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2007, 2008 and 2009 are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
The PRC	62,187	67,499	68,884
Hong Kong and BVI	–	200	165
	62,187	67,699	69,049

(f) During each of the years ended 31 December 2007, 2008 and 2009, revenue derived from sales made to two single external customers amounted to 10% or more of the Group's total revenue. These revenues were attributable to the wavelength management, transmission management, power management, and signal conditioning and monitoring management segments.

6 LAND USE RIGHT

The Group's interests in land use right represent prepaid operating lease payments for a piece of land located in the PRC (the "Land") and its net book value is analysed as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Outside of Hong Kong			
– Lease of 50 years	27,828	28,949	28,396

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Opening net book value	–	27,828	28,949
Addition	27,035	–	–
Amortization charges *(Note 17)*	(315)	(591)	(598)
Exchange difference	1,108	1,712	45
Closing net book value	27,828	28,949	28,396

Amortization of land use right is recognized as an expense on a straight-line basis over the unexpired period of the right. The remaining lease period of land use right as at 31 December 2009 was 47 years.

As at 31 December 2008, the land use right with a carrying amount of HK$28,949,000 had been pledged as collaterals for the Group's borrowings amounting to HK$22,678,000 (Note 14).

7 PROPERTY, PLANT AND EQUIPMENT

	Machinery	Motor vehicles	Furniture, fitting & equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007					
Cost	20,232	715	56,456	–	77,403
Accumulated depreciation	(8,649)	(259)	(38,809)	–	(47,717)
Net book amount	11,583	456	17,647	–	29,686
Year ended 31 December 2007					
Opening net book amount	11,583	456	17,647	–	29,686
Additions	542	–	9,298	2,815	12,655
Disposal	–	–	(2,222)	–	(2,222)
Depreciation *(Note 17)*	(2,550)	(107)	(5,833)	–	(8,490)
Exchange difference	762	29	1,339	116	2,246
Closing net book amount	10,337	378	20,229	2,931	33,875
At 31 December 2007					
Cost	22,273	767	64,085	2,931	90,056
Accumulated depreciation	(11,936)	(389)	(43,856)	–	(56,181)
Net book amount	10,337	378	20,229	2,931	33,875
Year ended 31 December 2008					
Opening net book amount	10,337	378	20,229	2,931	33,875
Additions	71	–	11,988	463	12,522
Disposal	(23)	–	(46)	–	(69)
Transfers	–	–	3,073	(3,073)	–
Depreciation *(Note 17)*	(2,670)	(113)	(7,504)	–	(10,287)
Exchange difference	606	22	1,346	148	2,122
Closing net book amount	8,321	287	29,086	469	38,163
At 31 December 2008					
Cost	23,666	814	83,023	469	107,972
Accumulated depreciation	(15,345)	(527)	(53,937)	–	(69,809)
Net book amount	8,321	287	29,086	469	38,163
Year ended 31 December 2009					
Opening net book amount	8,321	287	29,086	469	38,163
Additions	–	–	10,050	1,242	11,292
Disposal	–	–	(1)	–	(1)
Transfers	–	–	111	(111)	–
Depreciation *(Note 17)*	(2,162)	(73)	(7,126)	–	(9,361)
Exchange difference	12	1	49	2	64
Closing net book amount	6,171	215	32,169	1,602	40,157
At 31 December 2009					
Cost	23,704	815	93,311	1,602	119,432
Accumulated depreciation	(17,533)	(600)	(61,142)	–	(79,275)
Net book amount	6,171	215	32,169	1,602	40,157

(a) Depreciation expenses have been charged to the combined income statements as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cost of sales	5,189	6,299	7,011
Selling and marketing costs	10	13	12
Administrative expenses	1,717	1,928	1,294
Research and development expenses	1,574	2,047	1,044
	8,490	10,287	9,361

(b) For each of the years ended 31 December 2007, 2008 and 2009, lease rentals amounting to HK$3,307,000, HK$5,992,000 and HK$5,346,000, respectively, for leases of office buildings and plant of the Group, had been included in the combined income statements (Note 17).

(c) As at 31 December 2007, machinery and equipment for production purposes with carrying amounts of HK$5,795,000 had been pledged as security for the Group's borrowings amounting to HK$5,126,000 (Note 14).

8 INTANGIBLE ASSETS

Intangible assets represent patent and computer software purchased. Movement during the Relevant Periods is as follows:

	Patent	Software	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2007	–	–	–
Cost	–	–	–
Accumulated amortization	–	–	–
Net book amount	–	–	–
Year ended 31 December 2007			
Opening net book amount	–	–	–
Additions	–	477	477
Amortization charge *(Note 17)*	–	(12)	(12)
Exchange difference	–	19	19
Closing net book amount	–	484	484
At 31 December 2007			
Cost	–	497	497
Accumulated amortization	–	(13)	(13)
Net book amount	–	484	484
Year ended 31 December 2008			
Opening net book amount	–	484	484
Additions	207	–	207
Amortization charge *(Note 17)*	(30)	(104)	(134)
Exchange difference	2	28	30
Closing net book amount	179	408	587
At 31 December 2008			
Cost	210	527	737
Accumulated amortization	(31)	(119)	(150)
Net book amount	179	408	587
Year ended 31 December 2009			
Opening net book amount	179	408	587
Additions	–	44	44
Amortization charge *(Note 17)*	(31)	(106)	(137)
Exchange difference	1	1	2
Closing net book amount	149	347	496
At 31 December 2009			
Cost	210	572	782
Accumulated amortization	(61)	(225)	(286)
Net book amount	149	347	496

The amortization expenses had all been included in the administrative expenses in the combined income statements during the Relevant Periods.

9 INVENTORIES

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
Raw materials	20,415	17,691	26,748
Work-in-progress	19,589	18,889	20,246
Finished goods	16,997	11,347	11,776
Less: provision for write-down of inventories to net realizable values	(1,402)	(1,489)	(2,477)
	55,599	46,438	56,293

For each of the years ended 31 December 2007, 2008 and 2009, the cost of inventories recognized as cost of sales and administrative expenses amounted to HK$117,016,000, HK$150,056,000 and HK$147,123,000, respectively.

For each of the years ended 31 December 2007, 2008 and 2009, the Group had recognized losses of HK$641,000, nil and HK$984,000 for write-down of inventories to their respective net realizable values (Note 17), respectively. These amounts had been recognized as cost of sales in the combined income statements.

10 TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables *(note (a))*	59,321	73,516	132,249
Less: provision for impairment of trade receivables *(note (b))*	(1,553)	(1,671)	(1,622)
Trade receivables – net	57,768	71,845	130,627
Amounts due from related parties *(Note 25)*	131	3,151	997
Bills receivables *(note (c))*	1,477	11,858	35,207
Prepayments	1,516	330	1,337
Other receivables	1,535	1,525	1,340
	62,427	88,709	169,508

As at 31 December 2007, 2008 and 2009, the fair value of trade and other receivables of the Group approximated their carrying amounts.

(a) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
RMB	20,264	40,459	89,030
US$	41,887	46,074	75,883
HK$	276	2,176	1,393
JPY	–	–	3,202
	62,427	88,709	169,508

The credit period generally granted to customers is from 30 to 105 days. The ageing analysis of trade receivables (including amounts due from related parties which are trade in nature) is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	13,062	11,559	50,550
31 to 60 days	12,514	25,717	36,258
61 to 90 days	19,110	22,475	23,681
91 to 180 days	9,487	8,857	17,821
181 to 365 days	2,830	1,111	1,163
Over 365 days	2,336	3,902	2,776
	59,339	73,621	132,249

As at 31 December 2007, 2008 and 2009, trade receivables of HK$29,336,000, HK$27,424,000 and HK$37,641,000 were past due but not impaired. These relate to a number of independent customers that have good trading records with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The aging analysis of these trade receivables is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Past due 1 to 90 days	23,626	23,716	33,043
Past due 91 to 180 days	2,680	502	2,461
Past due 181 to 365 days	2,260	1,079	1,554
Past due over 365 days	770	2,127	583
	29,336	27,424	37,641

As at 31 December 2007, 2008 and 2009, trade receivables of HK$1,553,000, HK$1,671,000 and HK$1,622,000 were impaired. All these balances had been fully provided for impairment losses. The aging of these trade receivables is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Past due 1 to 90 days	–	42	–
Past due 91 to 180 days	5	–	–
Past due 181 to 365 days	47	–	–
Past due over 365 days	1,501	1,629	1,622
	1,553	1,671	1,622

(b) Movement of the provision for impairment of trade receivables is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Opening balance	1,402	1,553	1,671
Provision for/(write back of) impairment *(Note 17)*	46	22	(52)
Exchange difference	105	96	3
Closing balance	1,553	1,671	1,622

(c) Bills receivables are with maturity dates between 30 and 180 days. The aging analysis of bills receivables is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	993	796	10,552
31 to 90 days	484	6,547	11,468
91 to 180 days	–	4,515	13,187
	1,477	11,858	35,207

The other classes within trade and other receivables do not contain impaired assets.

As at 31 December 2007, 2008 and 2009, the maximum exposure to credit risk was the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

11 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cash at bank and in hand	65,411	22,979	26,544
Less: pledged bank deposits for bank borrowings	(53,396)	–	–
Cash and cash equivalents	12,015	22,979	26,544

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Cash at bank and in hand are denominated in the following currencies:

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
RMB	60,443	5,685	11,335
US$	4,722	17,135	15,107
HK$	222	135	102
JPY and Euro	24	24	–
	65,411	22,979	26,544

As at 31 December 2007, bank deposits of HK$53,396,000 had been pledged as security for the Group's borrowings amounting to HK$53,396,000 (Note 14).

Cash at bank, including pledged bank deposits, earned interest at floating rate.

12 OTHER RESERVES

	Capital reserve			
	Share-based compensation	Other capital reserve	Currency translation reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2007	7,860	151,834 *(note (a))*	(1,370)	158,324
Share option scheme – value of services *(Note 26)*	7,456	–	–	7,456
Acquisition of equity interest in O-Net Shenzhen and O-Net Hong Kong by O-Net BVI *(note (b))*	–	(24,274)	–	(24,274)
Currency translation differences	–	–	5,935	5,935
Balance at 31 December 2007	15,316	127,560	4,565	147,441
Share option scheme – value of services *(Note 26)*	2,664	–	–	2,664
Share issuance costs	–	(1,670)	–	(1,670)
Currency translation differences	–	–	4,454	4,454
Balance at 31 December 2008	17,980	125,890	9,019	152,889
Share option scheme – value of services *(Note 26)*	3,656	–	–	3,656
Deemed contributions from equity holders of the Company *(note (c))*	–	5,395	–	5,395
Share issuance costs	–	(6,032)	–	(6,032)
Currency translation differences	–	–	(393)	(393)
Balance at 31 December 2009	21,636	125,253	8,626	155,515

(a) The key components of the brought forward reserve balance as at 1 January 2007 are as follows:

i. The nominal value of the paid-in share capital of the subsidiaries now comprising the Group as at 1 January 2007 of HK$88 million;

ii. In 2004, O-Net Cayman waived a receivable due from O-Net Shenzhen amounting to approximately HK$24 million at no consideration. The waiver was considered as a deemed contribution made by O-Net Cayman to the Group and it was credited to the reserve of the Group.

iii. In 2005 and 2006, several agreements were entered into by O-Net Shenzhen and O-Net Hong Kong with O-Net Crystal Technology (Shenzhen) Limited, O-Net Integrated Technology (Shenzhen) Limited and O-Net International Inc, three related parties owned and controlled by the Controlling Shareholders. These related parties agreed to waive the receivable due from O-Net Shenzhen and O-Net Hong Kong by them, in an aggregate net amount of approximately HK$40 million, at no consideration. These waivers were considered by the Controlling Shareholders as their deemed contributions made to the Group and they were also credited directly to reserve of the Group.

(b) Acquisition of equity interest in O-Net Shenzhen and O-Net Hong Kong by O-Net BVI

Pursuant to the Reorganization, a share transfer agreement dated 12 March 2007 was executed between O-Net Cayman and O-Net BVI. Pursuant to this agreement, O-Net Cayman transferred its entire equity interests in O-Net Shenzhen and O-Net Hong Kong to O-Net BVI at an aggregate consideration of HK$24,274,000. The consideration was settled by extinguishing receivable balances of the same amount due from O-Net Cayman by O-Net Shenzhen and O-Net Hong Kong. The derecognition of these receivable balances was reflected as a debit made to reserve of the Group.

(c) Deemed contributions from equity holders of the Company

On 30 September 2009, O-Net Shenzhen and O-Net Hong Kong entered into agreements with several related parties which are controlled by the Controlling Shareholders. These related parties agreed to waive net current account balances, in an aggregate amount of HK$5,395,000, due from O-Net Shenzhen and O-Net Hong Kong at no consideration. Such waivers were accounted for as deemed contributions made by the Controlling Shareholders into the Group.

13 TRADE AND OTHER PAYABLES

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables *(note (a))*	54,329	42,306	68,890
Amount due to related parties *(Note 25)*	42,002	40,940	33,951
Accrued expenses	6,280	4,603	10,746
Payroll payable	4,614	4,555	6,604
Other payables	1,588	1,423	1,522
Advances from customers	530	256	177
Other taxes payable	439	1,466	1,150
	109,782	95,549	123,040

As at 31 December 2007, 2008 and 2009, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities.

(a) The ageing analysis of trade payables (including amounts due to related parties which are trade in nature) is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	13,164	10,218	27,548
31 to 60 days	17,412	7,437	12,183
61 to 180 days	16,852	17,832	23,788
181 to 365 days	5,260	4,066	2,298
Over 365 days	1,669	2,753	3,073
	54,357	42,306	68,890

(b) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
RMB	84,905	82,629	99,077
US$	18,603	8,661	16,664
HK$	6,274	4,259	7,282
Euro	–	–	17
	109,782	95,549	123,040

14 BORROWINGS

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Short-term bank borrowings	58,522	22,678	–
Representing:			
Bank borrowings – secured			
– Pledged	53,396	22,678	–
– Guaranteed	5,126	–	–
	58,522	22,678	–

As at 31 December 2009, all bank borrowings had been fully repaid by the Group. The maturity of borrowings as at 31 December 2007 and 2008 was within 12 months.

All borrowings bore interest at floating rates. The effective interest rates as at 31 December 2007 and 2008 were 6.88% and 7.47%, respectively.

The details of bank borrowings as at 31 December 2007 and 2008 are as follows:

As at	Borrowing amount	Security/Guarantee details
	HK$'000	
31 December 2007	53,396	Pledged by a bank deposit with the amount of HK$53,396,000 *(Note 11)*
	5,126	Guaranteed by Shenzhen Small & Medium Enterprise Credit Guarantee Center Co., Ltd, Mandarin VP (HK) Ltd., Co and Mr. Na Qinglin and pledged by machinery and equipment with carrying amounts of HK$5,795,000 *(Note 7)*
	58,522	
31 December 2008	11,339	Pledged by land use right with a carrying amount of HK$28,949,000 *(Note 6)*
	11,339	Pledged by land use right with a carrying amount of HK$28,949,000 *(Note 6)*
	22,678	

The carrying amounts of the borrowings as at 31 December 2007 and 2008 were all denominated in RMB.

The fair values of borrowings approximate their carrying amounts as they are interest bearing at market interest rates.

15 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current liabilities and when the deferred income taxes relate to the same tax authority. No deferred income tax assets and liabilities had been offset during the Relevant Periods.

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Deferred income tax assets:			
– to be recovered within 12 months	496	109	503
– to be recovered after more than 12 months	334	628	421
	830	737	924

The gross movement of the deferred income tax account during the Relevant Periods is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets:			
Beginning of the year	1,348	830	737
(Charged)/credited to the combined income statements *(Note 20)*	(531)	(114)	187
Exchange difference	13	21	–
End of the year	830	737	924

Movement in deferred tax assets during the Relevant Periods is as follows:

	Accelerated amortization of fixed assets and intangible assets	**Provision for impairment of receivables and write-down of inventories**	**Tax losses**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	16	52	1,274	6	1,348
Credited/(charged) to the combined income statements	91	96	(723)	5	(531)
Exchange difference	6	7	–	–	13
At 31 December 2007	113	155	551	11	830
Credited/(charged) to the combined income statements	212	169	(495)	–	(114)
Exchange difference	12	9	–	–	21
At 31 December 2008	337	333	56	11	737
Credited/(charged) to the combined income statements	139	104	(56)	–	187
Exchange difference	–	–	–	–	–
At 31 December 2009	476	437	–	11	924

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related benefit through the future taxable profits is probable.

There were no significant unrecognised deferred tax assets as at 31 December 2007, 2008 and 2009.

There were no significant unrecognized deferred tax liabilities as at 31 December 2007 and 2008. As at 31 December 2009, deferred income tax liabilities of approximately HK$2,780,000 had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HK$28 million of O-Net Shenzhen. The directors of the Company have determined not to distribute these earnings in the foreseeable future.

16 REVENUE AND OTHER GAINS

Revenue consists of sales of optic networking subcomponents, components, modules and subsystem. Revenue and other gains recognized during the Relevant Periods are as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Sales of goods	229,703	284,638	338,385
Other gains – net			
Government grants *(note (a))*	6	1,455	2,306
Gain/(loss) arising from sales of scrapped or surplus raw materials	344	(147)	(266)
(Loss)/gain on disposal of property, plant and equipment, net	(327)	(69)	9
Others	205	(68)	16
	228	1,171	2,065
	229,931	285,809	340,450

(a) The government grants are mainly grants from Shenzhen Science and Technology Bureau in Shenzhen for the financing of research and development expenditures incurred by O-Net Shenzhen.

17 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, research and development expenses and administrative expenses are analysed as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Staff costs – excluding share options granted to directors and employees	39,639	54,364	58,770
Share option expenses			
– For options granted to sales distributors	1,319	(55)*	954
– For options granted to directors and employees *(Note 18)*	6,137	2,719	2,702
Raw materials consumed	125,785	143,706	148,909
Changes in inventories of finished goods and work in progress *(Note 9)*	(8,769)	6,350	(1,786)
Depreciation *(Note 7)*	8,490	10,287	9,361
Amortization *(Notes 6, 8)*	327	725	735
Provision for/(write back of) impairment provision for doubtful receivables *(Note 10)*	46	22	(52)
Provision for write-down of inventories *(Note 9)*	641	–	984
Sales commissions	8,692	10,821	8,971
Utilities charges	8,160	8,056	7,639
Operating lease rental	3,307	5,992	5,346
Freight	2,214	2,742	2,043
Auditors' remuneration	136	108	137
Professional expenses	4,807	3,171	2,465
Travelling expenses	1,172	1,272	1,282
Advertising costs	873	901	606
Legal proceeding settlement costs and related legal expenses	811	1,814	–
Others	489	1,105	1,827
	204,276	254,100	250,893

* The negative share option expenses for the year ended 31 December 2008 were resulted from the change of estimate of a non-market performance condition (i.e. expected IPO date), which led to certain share options expenses charged in the previous years be written back to the combined income statements based on the revised amortization period.

18 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Salaries, bonus and other welfares	36,370	49,616	53,661
Pension – defined contribution plans *(note (a))*	3,269	4,748	5,109
Share options granted to directors and employees *(Note 17)*	6,137	2,719	2,702
	45,776	57,083	61,472

(a) The Group participates in defined contribution retirement benefit plans organised by the local government in the PRC. For each of the years ended 31 December 2007, 2008 and 2009, the Group is required to make monthly defined contributions to these plans based on certain percentage of the basic salary of employees. It is the local government's responsibility to pay the retirement pension to those staff who retired.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of each employee's relevant aggregate income.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

(b) Directors' emoluments

The remuneration of each director of the Company for the year ended 31 December 2007 is set out below:

Name of director	Fees	Salary	Share options granted	Other benefits and allowance	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Na Qinglin	–	861	–	175	–	1,036
Mr. Xue Yahong	–	546	–	48	15	609
Mr. Chen Zhujiang*	–	–	–	–	–	–
Mr. Huang Bin*	–	–	–	–	–	–
Mr. Tam Man Chi*	–	–	–	–	–	–
	–	1,407	–	223	15	1,645

The remuneration of each director of the Company for the year ended 31 December 2008 is set out below:

Name of director	Fees	Salary	Share options granted	Other benefits and allowance	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Na Qinglin	22	882	–	92	–	996
Mr. Xue Yahong	22	575	277	25	16	915
Mr. Chen Zhujiang*	22	–	–	–	–	22
Mr. Huang Bin*	22	–	265	–	–	287
Mr. Tam Man Chi*	22	–	–	–	–	22
	110	1,457	542	117	16	2,242

The remuneration of each director of the Company for the year ended 31 December 2009 is set out below:

Name of director	Fees	Salary	Share options granted	Other benefits and allowance	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Na Qinglin	23	970	–	74	–	1,067
Mr. Xue Yahong	23	757	66	40	23	909
Mr. Chen Zhujiang*	23	–	–	–	–	23
Mr. Huang Bin*	23	–	1,074	–	–	1,097
Mr. Tam Man Chi*	23	–	–	–	–	23
	115	1,727	1,140	114	23	3,119

* represent the non-executive directors

On 9 April 2010, the Company appointed three independent non-executive directors, Mr. Deng Xinping, Mr. Bai Xiaoshu and Mr. Ong Chor Wei. They had not received and were not entitled to receive any emoluments during the Relevant Periods. During the Relevant Periods, no director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office, no director waived or has agreed to waive any emoluments.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 2, 2 and 3 directors for each of the years ended 31 December 2007, 2008 and 2009, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3, 3 and 2 individuals for the Relevant Periods are as follows:

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Basic salaries	1,416	1,594	1,108
Pension costs	39	35	40
Bonus	308	159	84
Share option compensation	1,815	1,146	1,046
	3,578	2,934	2,278

The emoluments of the five highest paid individuals paid by the Group fell within the following bands:

	For the year ended 31 December		
	2007	**2008**	**2009**
Emolument bands			
Nil – HK$1,000,000	2	4	1
HK$1,000,001 – HK$1,500,000	2	1	4
HK$1,500,001 – HK$2,000,000	1	–	–
	5	5	5

No emoluments had been paid to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

19 FINANCE COSTS – NET

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Finance income			
– Interest income derived from bank deposits	(314)	(132)	(44)
Finance costs			
– Interest expenses on bank borrowings	175	1,041	525
– Exchange loss	4,894	5,949	569
– Others	69	–	–
	4,824	6,858	1,050

20 INCOME TAX EXPENSES

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Current income tax			
– Hong Kong profits tax *(note (b))*	–	–	145
– PRC enterprise income tax *(note (c))*	–	1,740	9,389
Total current income tax	–	1,740	9,534
Deferred income tax			
– Origination and reversal of temporary differences	(192)	(381)	(243)
– tax losses carried forward	723	495	56
Total deferred income tax *(Note 15)*	531	114	(187)
Income tax expenses	531	1,854	9,347

(a) The Company and O-Net BVI are not subject to profits tax in their respective countries of incorporation.

(b) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 17.5% on the estimated assessable profit for the year ended 31 December 2007 and 16.5% on the estimated assessable profit for each of the years ended 31 December 2008 and 2009.

On 28 February 2008, the Hong Kong Government proposed to change the Corporate Income Tax rate from 17.5% to 16.5%, with effect from 1 January 2008. The change in tax rate had no significant impact on the carrying value of the deferred tax balances for the Relevant Periods.

(c) PRC enterprise income tax (the "PRC EIT")

PRC EIT is provided on the assessable income of the companies now comprising the Group derived from the PRC, adjusted for those items, which are not assessable or deductible for the PRC EIT purpose.

O-Net Shenzhen was established in the Shenzhen Special Economic Zone. It was entitled to exemption from the PRC EIT for the two years commencing from their respective first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from the enacted EIT rate for the next three years (the "5-Year Tax Concession").

Pursuant to the PRC EIT Law passed by the Tenth National People's Congress on 16 March 2007 (the "New PRC EIT Law"), the new EIT for domestic and foreign enterprises is unified at 25%, which is effective from 1 January 2008 onwards. The New PRC EIT Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the New PRC EIT Law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. On 26 December 2007, the State Council issued the "Circular to implement of the Transitional Preferential Policies for the Enterprise Income Tax". Pursuant to this Circular, the transitional income tax rates of companies established in Shenzhen Special Economic Zone before 31 March 2007 should be 18%, 20% 22%, 24% and 25%, respectively in 2008, 2009, 2010, 2011 and 2012.

After promulgation of the New PRC EIT Law, the "5-Year Tax Concession" enjoyed by O-Net Shenzhen could be continued to be applied. As the first profit making year of O-Net Shenzhen after offsetting of cumulative carry-forward losses is 2006, the enacted tax rate applicable to O-Net Shenzhen in 2007, 2008 and 2009 is 0%, 9% (being 50% of the enacted EIT rate for 2008) and 10% (being 50% of the enacted EIT rate for 2009), respectively.

In addition, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It would be entitled to a concessionary EIT tax rate of 15% for a period of 3 years from 2008 to 2010. Given the fact that the applicable EIT tax rate under the 5-Year Tax Concession is more preferential and beneficial to O-Net Shenzhen, the enacted tax rates applicable to O-Net Shenzhen for 2008 and 2009 were determined based on the 5-Year Tax Concession, as described in the preceding paragraph.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rates applicable to the entities comprising the Group as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	20,831	24,851	88,507
Tax calculated at statutory tax rates applicable to entities comprising the Group	3,229	4,428	17,649
Tax effect of:			
Preferential tax concession	(3,045)	(3,173)	(8,768)
Expenses not deductible for tax purposes	347	599	466
Income tax expenses	531	1,854	9,347

21 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

22 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 2.1.

23 CASH GENERATED FROM OPERATIONS

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	20,831	24,851	88,507
Adjustments for:			
Depreciation and amortization *(Notes 6, 7, 8)*	8,817	11,012	10,096
Write-down of inventories *(Note 9)*	641	–	984
Provision for/(write back of) impairment provision for doubtful receivables *(Note 10)*	46	22	(52)
Loss/(gain)/on disposal of property, plant and equipment *(note (a))*	327	69	(9)
Interest income *(Note 19)*	(314)	(132)	(44)
Interest expenses *(Note 19)*	244	1,041	525
Share options granted to sales distributors, directors and employees *(Note 17)*	7,456	2,664	3,656
Changes in working capital:			
– Inventories	(12,284)	9,074	(10,843)
– Trade and other receivables	(21,018)	(26,153)	(84,534)
– Trade and other payables	8,574	(14,233)	27,491
Cash generated from operating activities	13,320	8,215	35,777

(a) In the combined cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Net book amount disposed *(Note 7)*	2,222	69	1
(Loss)/gain on disposal of property, plant and equipment *(Note 16)*	(327)	(69)	9
Proceeds received	1,895	–	10

(b) The Group had the following non-cash transactions during the Relevant Periods:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Acquisition of equity interest in O-Net Shenzhen and O-Net Hong Kong by O-Net BVI *(Note 12(b))*	24,274	–	–
Deemed contributions from equity holders of the Company *(Note 12(c))*	–	–	5,395

24 COMMITMENTS

Operating lease commitments

The Group leases certain of its office premises, plant and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	4,146	2,818	3,580
Later than one year and not later than five years	564	48	–
	4,710	2,866	3,580

25 RELATED PARTY TRANSACTIONS

Certain names of the companies referred to above in this note represent management's translation of the Chinese names of these companies as no English names have been registered or available for these companies.

(a) Name and relationship with related parties

Name	Relationship
Kaifa Technology (H.K.) Limited	One of the Controlling Shareholders
Mandarin IT Fund I	One of the Shareholders Group members
Mariscal Limited.	One of the Shareholders Group members
O-Net Trust	One of the Shareholders Group members
Shenzhen Kaifa Technology Co., Ltd	Holding company of a shareholder
O-Net Communications Limited	Controlled by the Controlling Shareholders
O-Net Integrated Technology (Shenzhen) Limited	Controlled by the Controlling Shareholders
O-Net Crystal Technology (Shenzhen) Limited	Controlled by the Controlling Shareholders
OMT Digital Display Technology (Shenzhen) Limited	Controlled by the Controlling Shareholders
O-Net Lasers Limited	Controlled by the Controlling Shareholders
OMT Systems (HK) Limited	Controlled by the Controlling Shareholders
O-Net International Inc	Controlled by the Controlling Shareholders
Butterfly Technology (Hong Kong) Ltd., Co.	Controlled by key management personnel of the Company
Butterfly Technology (Shenzhen) Ltd., Co.	Controlled by key management personnel of the Company
Mandarin VP (HK) Ltd., Co.	Controlled by key management personnel of the Company
Favourite Investments Limited	Controlled by key management personnel of the Company
Techno Strategic Limited	Controlled by key management personnel of the Company

(b) Transactions with related parties

Saved as disclosed in Notes 10, 12, 13, 14 and 26 in the Financial Information, the Group also had following significant transactions with related parties during the Relevant Periods:

Non-continuing transactions

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Purchases of materials			
O-Net Crystal Technology (Shenzhen) Limited	442	303	1,009
Shenzhen Kaifa Technology Co., Ltd	99	189	31
	541	492	1,040
Purchases of fixed assets			
OMT Digital Display Technology (Shenzhen) Limited	1,436	–	–
Shenzhen Kaifa Technology Co., Ltd	205	55	–
	1,641	55	–
Loan from a related party *(note i)*			
Mandarin IT Fund I	7,810	–	–
Expenses for operating lease of building			
Shenzhen Kaifa Technology Co., Ltd	1,256	1,537	–

In the opinion of the Directors, the above transactions were conducted in the normal course of business at terms as agreed with the related parties.

i: Pursuant to a loan agreement executed in 2007 between O-Net BVI and Mandarin IT Fund I , a shareholder, a loan of principal amount of US$1 million (equivalent to approximately HK$7,810,000) was extended to the Group for a period of one month. Interest was levied at commercial rate. The loan had been fully repaid before the end of 2007.

(c) Key management includes directors (executive and non-executive), the head of Sales Department and Research and Development Department of O-Net Shenzhen. The compensation paid or payable to key management for the employee services is shown as below:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, bonus and other welfares	3,355	3,439	3,825
Pension – defined contribution plans	56	55	62
Share option expenses	1,815	1,687	2,361
	5,226	5,181	6,248

(d) Balances with related parties

As at 31 December 2007, 2008 and 2009, the Group had the following balances with related parties:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables *(note ii)*			
O-Net International Inc	18	18	–
Shenzhen Kaifa Technology Co., Ltd	–	87	–
	18	105	–
Other receivables *(note ii)*			
Shenzhen Kaifa Technology Co., Ltd *(note iii)*	56	60	60
O-Net Integrated Technology (Shenzhen) Limited	3	7	–
O-Net Crystal Technology (Shenzhen) Limited	42	49	–
OMT Systems (HK) Limited	–	780	–
OMT Digital Display Technology (Shenzhen) Limited	–	1,753	–
Butterfly Technology (Hong Kong) Ltd., Co.*	–	–	936
Butterfly Technology (Shenzhen) Ltd., Co.	–	386	–
Favourite Investments Limited	5	5	–
Mandarin VP (HK) Ltd., Co.*	2	1	1
Techno Strategic Limited	5	5	–
	113	3,046	997
Trade payables *(note ii)*			
Shenzhen Kaifa Technology Co., Ltd	28	–	–
	28	–	–

* These outstanding balances as at 31 December 2009 had been subsequently settled in full by cash.

	As at 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Other payables			
Shenzhen Kaifa Technology Co., Ltd *(note iii)*	31,924	33,897	33,951
O-Net Lasers Limited *(note ii)*	3,776	3,760	–
OMT Digital Display Technology (Shenzhen) Limited *(note ii)*	3,471	–	–
O-Net Crystal Technology (Shenzhen) Limited *(note ii)*	2,803	3,283	–
	41,974	40,940	33,951

The maximum amount due from related parties controlled by key management personnel of the Company is as follows:

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Butterfly Technology (Hong Kong) Ltd., Co.	–	–	2,099
Butterfly Technology (Shenzhen) Ltd., Co.	–	386	1,939
Favourite Investments Limited	5	5	5
Mandarin VP (HK) Ltd., Co.	22	55	31
Techno Strategic Limited	5	5	5
	32	451	4,079

ii: All these current account balances were free of interest and security. They had no fixed repayment dates and were repayable on demand.

iii: The amount represents an advance from the holding company of a shareholder which is interest free and unsecured. It is repayable on demand. The directors of the Company expect to utilize the proceeds from the Listing to repay the whole outstanding balance, after netting off the other receivables due from it.

26 SHARE OPTION SCHEME

The Group operates an equity-settled, share-based compensation plan (the "Share Option Plan"). Pursuant to a trust deed (the "Old Trust Deed") entered into between O-Net Cayman and O-Net Trust in November 2000, O-Net Trust was established by O-Net Cayman for the purpose of assisting eligible participants, including employees, directors or officers of O-Net Cayman or any of its subsidiaries or its consultants and distributors (collectively "Grantees"), to acquire shares and other securities of O-Net Cayman (the "Old Option Agreements").

Immediately prior to the Reorganization as mentioned in Note 1, O-Net Trust directly held 9.41% of the issued share capital of O-Net Cayman. As part of the Reorganization, O-Net Holdings was set up in BVI on 13 January 2010 and the Shareholders Group became the shareholders of O-Net Holdings. Immediately after completion of the Reorganization, O-Net Trust held 2,728,359 shares in O-Net Holdings, representing 18.48% interest in O-Net Holdings, and would indirectly hold 9.41% of the issued share capital of the Company.

On 9 April 2010, O-Net Holdings, O-Net Cayman and O-Net Trust entered into a supplemental trust deed to the effect that O-Net Holdings became a party to the Share Option Plan as if O-Net Holdings was named in the Old Trust Deed as the settlor and the trust property in O-Net Trust would become the shares held by O-Net Trust in O-Net Holdings. On the same day, O-Net Cayman, O-Net Trust and each Grantee entered into supplemental agreements (the "New Option Agreements"), whereby each Grantee agreed to receive options to acquire shares in O-Net Holdings, which were determined by reference to the number of the then-existing options each Grantee had received under the Old Option Agreements at a ratio of 1:1 (the "Share Option Migration").

For the purpose of presentation in this report, all the number of share options and per option information has taken into account the impact of the Share Option Migration.

Under the Share Option Plan, three types of share options are granted to directors, employees and sales distributors:

Type A: share options granted to directors and employees with vesting periods over 1 to 3 years. The exercise of the share options is not dependent on an IPO of the Company. The exercise price is zero.

Type B: share options granted to directors and employees with graded vesting period over 1 to 3 years. The exercise of the share options is dependent on an IPO of the Company. The exercise price is zero.

Type C: share options granted to two overseas sales distributors for their services as sales representative of the Group with graded vesting over 1 to 3 years. The exercise of options is dependent on an IPO of the Company before the 5th business day before the fourth anniversary of the date of the option agreement, or if there is no IPO before the 5th business day before the fourth anniversary of the date of the option agreement, the share options are exercisable on the 5th business day before the fourth anniversary of the date of the option agreement. The exercise price is zero.

The details of the Share Option Plan, taking into account the provisions of the New Option Agreements and the effect of the Share Option Migration, during the Relevant Periods are as below:

(a) Movement of number of share options outstanding during the Relevant Periods is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
Beginning of the year	2,475,154	3,071,963	2,601,241
Granted	677,131	198,936	34,586
Exercised	(37,358)	(513,683)	–
Expired	–	(126,087)	(74,718)
Forfeited	(42,964)	(29,888)	(4,670)
End of the year	3,071,963	2,601,241	2,556,439

As at 31 December 2007, 2008 and 2009, 970,951, 584,535 and 679,089 share options were exercisable, respectively.

(b) The weighted average fair value per share of options granted during the Relevant Periods is as follows:

Share options granted in the year ended 31 December	**Weighted average fair value**		
	Type A	**Type B**	**Type C**
	HK$	*HK$*	*HK$*
2007	8.5	11.04	N/A
2008	N/A	13.47	N/A
2009	N/A	15.87	N/A

(c) Share options outstanding as at 31 December 2007, 2008 and 2009 were as follows:

Number of share options granted to	As at 31 December 2007	2008	2009	Expiry date
Directors	–	326,889	326,889	September 2015
Employees	2,502,109	1,704,498	1,659,696	April 2011-October 2016
Sales distributors	569,854	569,854	569,854	March-June 2010
	3,071,963	2,601,241	2,556,439	

(d) As the exercise price of the share options is zero, fair values of the options are determined with reference to the fair value of the Listing Business, which are ascertained by the directors of the Company by using the discounted cash flows method, after applying an appropriate marketability discount. The major assumptions are as follows:

	Share option granted in the year ended 31 December 2007	2008	2009
Gross profit margin	34%~38%	34%~38%	34%~38%
Discount rate	20%	19%	18%
Marketability discount	23%~24%	26%	17%

Refer to Note 17 for the total expenses recognized in the combined income statements for share options granted to directors, employees and sales distributors during the Relevant Periods.

27 SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2009:

(a) In January 2010, the directors of O-Net Shenzhen resolved that amounts of approximately HK$28 million be set aside from the profits earned in 2009 by O-Net Shenzhen to a discretionary special purpose reserve which is designated for future expansion of operations of O-Net Shenzhen. Such appropriations have not been reflected in the Financial Information but will be dealt with in retained earnings for the year ending 31 December 2010.

(b) On 29 March 2010, the Group completed the Reorganization in preparing for the Listing.

(c) On 9 April 2010, the New Option Agreements have been signed and the Share Option Migration has been completed.

III FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 12 November 2009 with an initial authorised share capital of HK$390,000 divided into 39,000,000 shares with par value of HK$0.01 each. On the date of incorporation, 1 ordinary share was issued to O-Net Cayman.

The Company had not been involved in any significant business transactions since its date of incorporation to 31 December 2009. As at 31 December 2009, the Company had an amount due from related party balance of HK$0.01 and a share capital of HK$0.01. Save as disclosed in this report, it had no other assets, liabilities or distributable reserve as at 31 December 2009.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any periods subsequent to 31 December 2009. Except as disclosed in this report, no dividends or distributions have been declared, made or paid by the Company or the companies now comprising the Group in respect of any period subsequent to 31 December 2009.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the "Accountants' Report" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of our Group attributable to equity holders of our Company as at 31 December 2009 as if the Global Offering had taken place on 31 December 2009.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 31 December 2009 or at any future dates following the completion of the Global Offering.

	Audited combined net tangible assets attributable to equity holders of our Company as at 31 December 2009[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company per Share[3]
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$2.17 per Share	187,885	375,990	563,875	0.73
Based on an Offer Price of HK$2.90 per Share	187,885	512,146	700,031	0.91

Notes:

(1) The audited combined net tangible assets attributable to equity holders of our Company as at 31 December 2009 have been extracted from the Accountants' Report set out in Appendix I to this prospectus which is based on the audited combined net assets attributable to equity holders of our Company of HK$188.4 million with an adjustment for the intangible assets of HK$0.5 million.

(2) The estimated net proceeds from the Global Offering are based on the Indicative Offer Price range of HK$2.17 per Share and HK$2.90 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of the Shares that may be issued pursuant to any exercise of the options granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 773,095,240 Shares were in issue assuming that the Global Offering had been completed on 31 December 2009 but takes no account of any Shares which may be issued upon exercise of the options granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate to Issue Shares or General Mandate to Repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(4) By comparing the valuation of our Company's property interests of nil as set out in Appendix IV to this prospectus and the unaudited net book value of these properties as at 31 January 2010, the net valuation deficit is approximately HK$28.4 million, which has not been included in the above net tangible assets attributable to equity holders of our Company as at 31 December 2009. The revaluation of the Group's property interests will not be incorporated in the Group's financial information. If the revaluation deficit is to be included in the Group's financial information, a reduced amortization charge of approximately HK$0.6 million per annum related to land use right would be recorded.

(5) No adjustments have been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2009.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following is an illustrative and unaudited pro forma forecast earnings per Share of our Company for the six months ending 30 June 2010 which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2010. This unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the six months ending 30 June 2010 or any future period.

Forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010	Not less than HK$65.9 million
Unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010	Not less than HK$0.085

Notes:

(1) The forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 is extracted from the section headed "Financial Information – Profit Forecast for the Six Months ending 30 June 2010" in this prospectus. The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 based on the forecast of the consolidated results of the Group for the six months ending 30 June 2010. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in Note 2.2 of Section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(2) The calculation of unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 is based on the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 and on the basis that 773,095,240 Shares were in issue during the entire period and assuming that the Global Offering had been completed on 1 January 2010. The calculation takes no account of any Shares which may be issued upon exercise of the options granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate to Issue Shares or General Mandate to Repurchase Shares as described in the section headed "Share Capital" in this prospectus.

C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF O-NET COMMUNICATIONS (GROUP) LIMITED

We report on the unaudited pro forma financial information of O-Net Communications (Group) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-2 under the headings of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and "Unaudited Pro Forma Forecast Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 19 April 2010 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at 31 December 2009 with the Accountants' Report as set out in Appendix I of the Prospectus, comparing the unaudited forecast consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2010 with the profit forecast as set out in the section headed "Financial Information – Profit Forecast for the Six Months ending 30 June 2010" in the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the adjusted net tangible assets of the Group as at 31 December 2009 or any future date, or

– the earnings per share of the Group for the six months ending 30 June 2010 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 April 2010

The forecast of the consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 is set out in "Financial Information – Profit Forecast for the six months ending 30 June 2010" in this prospectus.

(A) BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 based on a forecast of the consolidated results of the Group for the six months ending 30 June 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Company as set out in Note 2.2 of section II of the Accountants' Report, the text of which is set out in Appendix I of this prospectus, and on the following principal bases and assumptions:

(a) there will be no material changes in the existing government policies, political, legal, fiscal, market or economic conditions in the PRC, Hong Kong, or any other countries or territories in which our Group currently operates or which are otherwise material to our business;

(b) there will be no changes in legislation, regulations or rules in the PRC, Hong Kong or any other countries or territories in which our Group operates or with which our Group has arrangements or agreements, which may materially adversely affect our Group's business or operations;

(c) there will not be material changes in the bases or applicable rates of taxation, subcharges or other government levies in the countries or territories in which our Group operates, except as otherwise disclosed in this prospectus;

(d) there will be no material changes in inflation, interest rates or foreign exchange rates from those currently prevailing in the context of our Group's operations;

(e) our Group's operations will not be materially and adversely affected by any of the risk factors set out in "Risk Factors";

(f) there will be no wars, military incidents, acts of terrorism, pandemic diseases, natural disasters, or force majeure events, unforeseeable factors or reasons that are beyond our control, which would have a material impact on our Group's business and operating activities;

(g) the operation of our Group will not be adversely affected by occurrences such as labor shortages and disputes, or any other factors outside the control of the management of our Group. In addition, our Group will be able to recruit enough employees to meet its operating requirements; and

(h) the Directors and key senior management of our Group will continue to involve in the development and operation of our Group and our Group will be able to retain its key senior management and personnel during the forecast period.

(B) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

19 April 2010

The Directors
O-Net Communications (Group) Limited

CLSA Equity Capital Markets Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of O-Net Communications (Group) Limited (the "Company") for the six months ending 30 June 2010 (the "Profit Forecast") as set out in the subsection headed "Profit forecast for the six months ending 30 June 2010" in the section headed "Financial information" in the prospectus of the Company dated 19 April 2010 (the "Prospectus").

We conducted our work in accordance with Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on a forecast of the consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the six months ending 30 June 2010 on the basis that the current group structure had been in existence throughout the whole six months ending 30 June 2010.

In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 2.2 of section II of our Accountants' Report dated 19 April 2010, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(C) LETTER FROM CLSA

The following is the text of a letter received from the Sponsor for the purpose of incorporation in this prospectus.

The Directors
O-Net Communications (Group) Limited

19 April 2010

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to equity holders of O-Net Communications (Group) Limited (the "Company") and its subsidiaries for the six months ending 30 June 2010 (the "Profit Forecast") as set out in the prospectus issued by the Company dated 19 April 2010 (the "Prospectus").

We understand that the Profit Forecast has been prepared by the directors of the Company based on a forecast of the consolidated results of the Company and its subsidiaries for the six month ending 30 June 2010.

We have discussed with you the bases made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered that letter dated 19 April 2010 addressed to yourselves and ourselves from PricewaterhouseCoopers, Certified Public Accountants, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, Certified Public Accountants, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
CLSA Equity Capital Markets Limited
Richard Lee
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 January 2010 of the property interests of the Group.

JONES LANG LASALLE® SALLMANNS

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

19 April 2010

The Board of Directors
O-Net Communications (Group) Limited

Dear Sirs,

In accordance with your instructions to value the properties in which O-Net Communications (Group) Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 January 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interest in Group I by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

We have attributed no commercial value to the property interests in Groups II and III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with a tenancy agreement relating to the property interest in Group III and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisors – Global Law Office, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong and the United Kingdom as well as relevant experience in the Asia-Pacific region, France and Germany.

SUMMARY OF VALUES

Group I – Property interest held for future development by the Group in the PRC

No.	Property	Capital value in existing state as at 31 January 2010
		RMB
1.	A parcel of land located at the western side of Cuijing Road and the southern side of Qinglansan Road Pingshan New District Shenzhen City Guangdong Province The PRC	No commercial value
	Sub-total:	Nil

Group II – Property interests leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 January 2010
		RMB
2.	Portions of the south area of No. 1 Industrial Building Block 10 of Maqueling Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 January 2010
		RMB
3.	50 residential units of No. 4 Dormitory Block 10 of Maqueling Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
4.	Level 1 of a 4-storey industrial building No. 419 Jinbi Road Longgang District Shenzhen City Guangdong Province The PRC	No commercial value
5.	41 residential units of Great Wall Apartment No. 1 Qingwu Road Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
6.	66 residential units of Kaili Garden located at the northern side of Gaoxinzhongsi Road Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 January 2010
		RMB
7.	Units 224, 323, 424, 425, 502, 504 and 513 of a dormitory No. 11 Kefa Road Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
8.	Unit 503 of Block 1 Sangda Garden No. 7 Qiongyu Road Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
9.	18 residential units of Ba Jiao Lou Building located at the southern side of Gaoxinzhongsi Road Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
10.	District A, Room 03 on Level 1 of No. 3 Industrial Building Block 10 of Maqueling Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
	Sub-total:	Nil

Group III – Property interest leased and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 31 January 2010
		RMB
11.	Unit 1608, 16th Floor of West Tower Shun Tak Centre Nos. 168 to 200 Connaught Road Central Sheung Wan Hong Kong	No commercial value
	Sub-total:	Nil
	Grand total:	Nil

VALUATION CERTIFICATE

Group I – Property interest held for future development by the Group in the PRC

No.	**Property**	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 31 January 2010**
				RMB
1.	A parcel of land located at the western side of Cuijing Road and the southern side of Qinglansan Road Pingshan New District Shenzhen City Guangdong Province The PRC	The property comprises a parcel of land with a site area of approximately 38,463.57 sq.m. As advised by the Group, an industrial development is planned to be constructed on the property. The land use rights of the property have been granted for a term of 50 years expiring on 17 June 2057 for industrial use.	The property is currently a vacant site.	No commercial value

Notes:

1. Pursuant to a Shenzhen Land Use Rights Grant Contract (《深圳市土地使用權出讓合同書》, the "Contract") dated 18 June 2007 entered into between O-Net Communications (Shenzhen) Limited (昂納信息技術(深圳)有限公司, a wholly-owned subsidiary of the Company, "O-Net Shenzhen") and Shenzhen State-owned Land Resources and Housing Administration Bureau (深圳市國土資源與房產管理局, "Shenzhen SLRHA Bureau", now known as Shenzhen Planning and State-owned Land Resources Committee), the land use rights of the property were contracted to be granted to O-Net Shenzhen for a term of 50 years commencing from 18 June 2007 and expiring on 17 June 2057 for industrial use. The land use rights premium was RMB3,839,599.

   As stipulated in the Contract, the development of the property should be completed before 17 June 2009. Otherwise, the Group would be levied fines for overdue development and Shenzhen SLRHA Bureau has the rights to forfeit the land use rights of the property without paying any compensation if the overdue term exceeds 2 years.

2. Pursuant to a Real Estate Title Certificate – Shen Fang Di Zi Di No. 8000007497, the land use rights of a parcel of land with a site area of approximately 38,467.57 sq.m. were granted to O-Net Shenzhen for a term of 50 years expiring on 17 June 2057 for industrial use.

   As stipulated in the Real Estate Title Certificate, the land use rights of the property cannot be transferred or let out.

3. Pursuant to a letter issued by Shenzhen Planning and State-owned Land Resources Committee Pingshan Administration Bureau (深圳市規劃與國土資源管理委員會坪山管理局) dated 8 March 2010, O-Net Shenzhen is required to commence the construction work before 8 March 2011 and completion of the construction shall be before 8 March 2012.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Group has legally obtained the Real Estate Title Certificate of the property and has the rights to occupy and use the land use rights of the property in accordance with the prescribed use and term stipulated in the aforesaid Real Estate Title Certificate and the Contract. The Group also has the rights to mortgage the land use rights of the property according to the PRC laws and the Contract, but it has to obtain the prior approval from the land administration authority.

b. The Group shall not transfer or lease the land use rights of the property without obtaining the prior consent from Shenzhen SLRHA Bureau;

c. The land use rights of the property are not subject to any restrictions arising from any mortgage, sequestration or any third parties rights;

d. O-Net Shenzhen has obtained the approval for postponement of development from the land administration authority and will not be fined or subject to forfeiture of the land use rights. O-Net Shenzhen should carry out construction within the prescribed time limits;

e. After O-Net Shenzhen has obtained the comments of eligibility on the engineering design documents and approval from the relevant local authorities, such as Environmental Protection, Civil Air Defense, Protection of Cultural Relics, Fire Protection and other competent departments, as well as the submitted documents have complied with the approving authority's requirements, there will be no legal impediment for O-Net Shenzhen to obtain the Construction Work Planning Permit; and

f. After O-Net Shenzhen has legally obtained the Construction Work Planning Permit and signed the relevant construction contracts, as well as the submitted documents have complied with the approving authority's requirements, there will be no legal impediment for O-Net Shenzhen to obtain the Construction Work Commencement Permit.

5. We have relied on the legal opinion above and attributed no commercial value to the property which cannot be transferred without obtaining the prior consent from Shenzhen SLRHA Bureau. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB27,398,000 assuming it could be freely transferred.

VALUATION CERTIFICATE

Group II – Property interests leased and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
2.	Portions of the south area of No. 1 Industrial Building Block 10 of Maqueling Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises portions on Levels 1 to 3 of a 3-storey industrial building completed in about 1989. The property has a total lettable area of approximately 6,042.6 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from an independent third party for various terms with the expiry dates between 13 August 2010 and 22 August 2010 at a total monthly rent of RMB246,517.76, exclusive of management fees, water and electricity charges for production and office purposes.	The property is currently occupied by the Group for production and office purposes.	No commercial value

Notes:

1. Pursuant to 3 Tenancy Agreements, the property is leased to O-Net Shenzhen from Shenzhen Fengfu Industrial Co., Ltd. (深圳豐富實業股份有限公司, the "Lessor"), an independent third party, for various terms with the expiry dates between 13 August 2010 and 22 August 2010 at a total monthly rent of RMB246,517.76, exclusive of management fees, water and electricity charges for production and office purposes.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Tenancy Agreements in respect of the property are legal and valid and the terms of the Tenancy Agreements comply with the relevant PRC laws and are valid and enforceable;

   b. The Lessor cannot provide any title certificate or any other proof of the Lessor's authority to let the property and therefore it cannot be ascertained whether the Lessor has the rights to let the property. In case the Lessor is not the legal owner of the property or has no rights to let the property, the Group may be forced to move out of the property. In that case, the Group has the rights to revoke the Tenancy Agreements and claim for compensation from the Lessor for any loss arising therefrom; and

   c. One of the Tenancy Agreements has been registered with the local authority. It cannot be ascertained whether the other Tenancy Agreements have been registered. However, the validity of such Tenancy Agreements will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
3.	50 residential units of No. 4 Dormitory Block 10 of Maqueling Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises 50 residential units on Levels 3 to 8 of an 8-storey dormitory completed in about 1992. The property has a total lettable area of approximately 1,727.5 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from an independent third party for various terms with the expiry dates between 21 June 2010 and 30 October 2010 at a total monthly rent of RMB47,720, exclusive of management fees, water and electricity charges for residential purpose.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 7 Tenancy Agreements, the property is leased to O-Net Shenzhen from Shenzhen Fengfu Industrial Co., Ltd. (the "Lessor"), an independent third party, for various terms with the expiry dates between 21 June 2010 and 30 October 2010 at a total monthly rent of RMB47,720, exclusive of management fees, water and electricity charges for residential purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Lessor is the legal owner of the property and has the rights to lease the property to the Group;

   b. The Tenancy Agreements in respect of the property are legal and valid and the terms of the Tenancy Agreements comply with the relevant PRC laws and are valid and enforceable. The Group has the rights to use the property in accordance with the Tenancy Agreements; and

   c. It cannot be ascertained whether the Tenancy Agreements have been registered. However, the validity of the Tenancy Agreements will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
4.	Level 1 of a 4-storey industrial building No. 419 Jinbi Road Longgang District Shenzhen City Guangdong Province The PRC	The property comprises Level 1 of a 4-storey industrial building completed in about 1997. The property has a lettable area of approximately 680 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from an independent third party for a term expiring on 30 November 2010 at a monthly rent of RMB4,100, exclusive of management fees, water and electricity charges for storage purpose.	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to O-Net Shenzhen from Shenzhen Muwangda Industrial Co., Ltd. (深圳市沐旺達實業有限公司, the "Lessor"), an independent third party, for a term expiring on 30 November 2010 at a monthly rent of RMB4,100, exclusive of management fees, water and electricity charges for storage purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Lessor is the legal owner of the property and has the rights to lease the property to the Group;

   b. The Tenancy Agreement in respect of the property is legal and valid and the term of the Tenancy Agreement complies with the relevant PRC laws and is valid and enforceable. The Group has the rights to use the property in accordance with the Tenancy Agreement; and

   c. It cannot be ascertained whether the Tenancy Agreement has been registered. However, the validity of the Tenancy Agreement will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
5.	41 residential units of Great Wall Apartment No. 1 Qingwu Road Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises 41 residential units of various multi-storey buildings in a residential development completed in about 1995. The property has a total lettable area of approximately 2,856.21 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from an independent third party for terms expiring on 31 July 2010 at a total monthly rent of RMB67,250, exclusive of management fees, water and electricity charges for residential purpose.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 2 Tenancy Agreements, the property is leased to O-Net Shenzhen from Shenzhen Aihua Electronics Co., Ltd. (深圳市愛華電子有限公司, the "Lessor"), an independent third party, for terms expiring on 31 July 2010, at a total monthly rent of RMB67,250 exclusive of management fees, water and electricity charges for residential purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Tenancy Agreements in respect of the property are legal and valid and the terms of the Tenancy Agreements comply with the relevant PRC laws and are valid and enforceable;

   b. The Lessor cannot provide any title certificate or any other proof of the Lessor's authority to let the property and therefore it cannot be ascertained whether the Lessor has the rights to let the property. In case the Lessor is not the legal owner of the property or has no rights to let the property, the Group may be forced to move out of the property. In that case, the Group has the rights to revoke the Tenancy Agreements and claim for compensation from the Lessor for any loss arising therefrom; and

   c. One of the Tenancy Agreements has been registered with the local authority. It cannot be ascertained whether another Tenancy Agreement has been registered. However, the validity of such Tenancy Agreement will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
6.	66 residential units of Kaili Garden located at the northern side of Gaoxinzhongsi Road Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises 66 residential units of various multi-storey buildings in a residential development completed between 1988 and 1997. The property has a total lettable area of approximately 1,697.7 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from various independent third parties for various terms with the expiry dates between 16 April 2010 and 31 December 2010 at a total monthly rent of RMB57,990, exclusive of management fees, water and electricity charges for residential purpose.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 19 Tenancy Agreements, the property is leased to O-Net Shenzhen from various independent third parties (the "Lessor" or the "Lessors") for various terms with the expiry dates between 16 April 2010 and 31 December 2010 at a total monthly rent of RMB57,990 exclusive of management fees, water and electricity charges for residential purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Tenancy Agreements in respect of the property are legal and valid and the terms of the Tenancy Agreements comply with the relevant PRC laws and are valid and enforceable;

   b. For 12 units of the property, the Lessors are the legal owners of the units and have the rights to lease such units to the Group. The Group has the rights to use such unit in accordance with the relevant Tenancy Agreements;

   c. For the remaining 54 units, the Lessors cannot provide any title certificates or any other proof of the Lessors' authority to let the units and therefore it cannot be ascertained whether the Lessors have the rights to let the units. In case such Lessors are not the legal owners of the units or have no rights to let the units, the Group may be forced to move out of such units. In that case, the Group has the rights to revoke the Tenancy Agreements and claim for compensation from the Lessors for any loss arising therefrom; and

   d. One of the Tenancy Agreements has been registered with the local authority. It cannot be ascertained whether the other Tenancy Agreements have been registered. However, the validity of such Agreements will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
7.	Units 224, 323, 424, 425, 502, 504 and 513 of a dormitory No. 11 Kefa Road Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises 7 units on Levels 2 to 5 of an 8-storey dormitory completed in about 1991. The property has a total lettable area of approximately 238 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from an independent third party for a term of one year expiring on 31 July 2010 at a total monthly rent of RMB7,700, exclusive of management fees, water and electricity charges for residential purpose.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 5 Tenancy Agreements, the property is leased to O-Net Shenzhen from Feng Hongsheng (馮鴻生, the "Lessor"), an independent third party, for a term of one year expiring on 31 July 2010 at a total monthly rent of RMB7,700, exclusive of management fees, water and electricity charges for residential purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Tenancy Agreements in respect of the property are legal and valid and the terms of the Tenancy Agreements comply with the relevant PRC laws and are valid and enforceable;

   b. The Lessor cannot provide any title certificate or any other proof of the Lessor's authority to let the property and therefore it cannot be ascertained whether the Lessor has the rights to let the property. In case the Lessor is not the legal owner of the property or has no rights to let the property, the Group may be forced to move out of the property. In that case, the Group has the rights to revoke the Tenancy Agreements and claim for compensation from the Lessor for any loss arising therefrom; and

   c. It cannot be ascertained whether the Tenancy Agreements have been registered. However, the validity of the Tenancy Agreements will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
8.	Unit 503 of Block 1 Sangda Garden No. 7 Qiongyu Road Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises a unit on Level 5 of a 7-storey residential building in a residential development completed in about 1995. The property has a lettable area of approximately 70.38 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from an independent third party for a term of one year expiring on 30 May 2010 at a monthly rent of RMB2,300, exclusive of management fees, water and electricity charges for residential purpose.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to O-Net Shenzhen from Bi Jingfeng (畢經峰, the "Lessor"), an independent third party, for a term of one year expiring on 30 May 2010 at a monthly rent of RMB2,300, exclusive of management fees, water and electricity charges for residential purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Lessor is the legal owner of the property and has the rights to lease the property to the Group;

   b. The Tenancy Agreement in respect of the property is legal and valid and the term of the Tenancy Agreement complies with the relevant PRC laws and is valid and enforceable. The Group has the rights to use the property in accordance with the Tenancy Agreements; and

   c. It cannot be ascertained whether the Tenancy Agreement has been registered. However, the validity of the Tenancy Agreement will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
9.	18 residential units of Ba Jiao Lou Building located at the southern side of Gaoxinzhongsi Road Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises 18 units on Levels 5 and 8 of an 8-storey residential building completed in about 1989. The property has a total lettable area of approximately 414 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from various independent third parties for various terms with the expiry dates between 1 December 2010 and 9 January 2011 at a total monthly rent of RMB14,400, exclusive of management fees, water and electricity charges for residential purpose.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 3 Tenancy Agreements, the property is leased to O-Net Shenzhen from various independent third parties (the "Lessors") for various terms with the expiry dates between 1 December 2010 and 9 January 2011 at a total monthly rent of RMB14,400, exclusive of management fees, water and electricity charges for residential purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Tenancy Agreements in respect of the property are legal and valid and the terms of the Tenancy Agreements comply with the relevant PRC laws and are valid and enforceable;

   b. The Lessors cannot provide any title certificates or any other proof of the Lessors' authority to let the property and therefore it cannot be ascertained whether the Lessors have the rights to let the property. In case the Lessors are not the legal owners of the property or have no rights to let the property, the Group may be asked to move out of the property. In that case, the Group has the rights to revoke the Tenancy Agreements and claim for compensation from the Lessors for any loss arising therefrom; and

   c. It cannot be ascertained whether the Tenancy Agreements have been registered. However, the validity of the Tenancy Agreements will not be affected by the absence of registration.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
10.	District A, Room 03 on Level 1 of No. 3 Industrial Building Block 10 of Maqueling Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises portions on Level 1 of a 6-storey industrial building completed in about 1992. The property has a lettable area of approximately 510.78 sq.m. The property is leased to O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen", a wholly-owned subsidiary of the Company) from an independent third party for a term of one year expiring on 8 December 2010 at a monthly rent of RMB20,431.2, exclusive of management fees, water and electricity charges and other outgoings for production purpose.	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to O-Net Shenzhen from Shenzhen Fengfu Industrial Co., Ltd. (the "Lessor"), an independent third party, for a term of one year expiring on 8 December 2010 at a monthly rent of RMB20,431.2, exclusive of management fees, water and electricity charges and other outgoings for production purpose.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Lessor is the legal owner of the property and has the rights to lease the property to the Group;

   b. The Tenancy Agreement in respect of the property is legal and valid and the term of the Tenancy Agreement complies with the relevant PRC laws and is valid and enforceable. The Group has the rights to use the property in accordance with the Tenancy Agreement; and

   c. The Tenancy Agreement has been registered with the local authority.

VALUATION CERTIFICATE

Group III – Property interests leased and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2010
				RMB
11.	Unit 1608, 16th Floor of West Tower, Shun Tak Centre Nos. 168 to 200 Connaught Road Central Sheung Wan Hong Kong	The property comprises a unit on the 16th floor of a 39-storey office building completed in about 1985. The unit has a gross floor area of approximately 1,440 sq.ft. (133.78 sq.m.). Pursuant to a Tenancy Agreement dated 31 December 2009 made between O-Net Communications (HK) Limited ("O-Net HK", a wholly-owned subsidiary of the Company) and Mandarin VP (HK) Limited (文合創業有限公司, "MVP HK", a connected party to the Group) as Tenants and Allied Ocean Development Limited (滙洋發展有限公司), as Landlord, the property is leased by the Tenants for a term commencing from 1 January 2010 and expiring on 31 December 2011 at a monthly rent of HKD50,000, exclusive of Government rent, rates, air-conditioning and management charges for office purpose.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. The current registered owner of the property is Allied Ocean Development Limited, an independent third party to the Group.

2. Pursuant to an Acceptance of Tenancy Agreement dated 31 December 2009 entered into between O-Net HK and MVP HK, O-Net HK and MVP HK had jointly accepted the aforesaid Tenancy Agreement. The rent of the property shall be equally borne by both parties and O-Net HK and MVP HK shall be responsible for the payment of all rates, Government rent, management fee and outgoings in equal shares. The stamp duty and legal cost of the Tenancy Agreement and the duplicate, and agency fee shall be borne and paid by both parties in equal shares for the Tenants' own portion.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 November 2009 under the Cayman Islands Companies Law. The Memorandum and the Articles of Association comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Islands Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 9 April 2010 to take effect on the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Islands Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Islands Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Islands Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Islands Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Islands Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Islands Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Cayman Islands Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Islands Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Islands Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Islands Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Islands Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than 21 clear days and less than ten clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Islands Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than 21 clear days and not less than 20 clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (except as set out in sub-paragraph (e) above) be called by notice of at least 21 clear days and not less than ten clear business days. All other extraordinary general meetings shall be called by notice of at least 14 clear days and not less than ten clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Islands Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Cayman Islands Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Cayman Islands Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Islands Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Islands Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Except as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Islands Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Islands Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Islands Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Cayman Islands Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Islands Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Islands Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Islands Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Islands Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Islands Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Islands Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Cayman Islands Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 1 December 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Islands Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Islands Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Islands Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within 28 days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the Company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least 21 days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Islands Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT US

1. Incorporation

We were incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law on 12 November 2009. We have established a principal place of business in Hong Kong at Unit 1608B, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance. Mr. Lee Hang Tat has been appointed as our authorized representative for the acceptance of service of process and notices under the same address.

As we were incorporated in the Cayman Islands, we operate subject to the Cayman Islands laws and our constitutive documents which comprise the Memorandum and the Articles of Association. A summary of certain parts of our constitution and relevant aspects of the Cayman Islands Companies law is set out in Appendix V – "Summary of the Constitution of our Company and the Cayman Islands Companies Law".

2. Changes in share capital of our Company

As at the date of our incorporation, the authorized share capital of our Company was HK$390,000 divided into 39,000,000 Shares of par value HK$0.01 each.

On 12 November 2009, one subscriber Share in nil paid form with the par value of HK$0.01 of our Company was issued and allotted to the subscriber to the Memorandum and on the same date, such Share was transferred to O-Net Cayman.

Pursuant to the Reorganization, subsequently on 22 February 2010, our Company issued additional 9,999 Shares of HK$0.01 each to O-Net Cayman and all the said 10,000 shares were credited as fully paid up by our Company in consideration of the transfer by O-Net Cayman of all its shareholding interests in O-Net BVI to our Company.

By way of a distribution in specie effected by O-Net Cayman on 29 March 2010 of the entire issued share capital that O-Net Cayman held in our Company, all the then shareholders of O-Net Cayman became the direct Shareholders of our Company in proportion to their then shareholdings in O-Net Cayman.

Further details of the Reorganization are set out under paragraph 4 headed "Reorganization" below.

Except as aforesaid and those mentioned under paragraph 4 headed "Reorganization" below, there has been no alteration in our Company's share capital since the incorporation of our Company.

3. Proceedings at the Company's extraordinary general meeting

On 9 April 2010, the Shareholders of the Company passed, among other resolutions, the following resolutions:

(a) the authorized share capital of our Company was increased from HK$390,000 to HK$100,000,000 by the creation of an additional 9,961,000,000 Shares;

(b) the adoption of the Articles to take effect on the Listing Date, the terms of which are summarized in Appendix V of this prospectus;

(c) conditional upon:

– the Listing Committee granting the listing of, and the permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering and the options granted under the Share Option Scheme; and

– the obligations of the Underwriters under the Underwriting Agreements becoming unconditional or waived and none of the Underwriting Agreements is terminated in accordance with its terms or otherwise:

(i) the Global Offering was approved and our Directors were authorized to allot and issue the Offer Shares pursuant to the Global Offering;

(ii) the rules of the Share Option Scheme were approved and adopted and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the HKSE; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with the Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the HKSE for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;

(d) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with the unissued Shares in the capital of our Company (otherwise than pursuant to, or in consequence of a rights issue or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by the Shareholders) with an aggregate nominal value of not more than the sum of 20% of the aggregate nominal value of the share capital of our Company in issue following the completion of the Capitalization Issue and the Global Offering; and the aggregate nominal value of the share capital of our Company repurchased (if any), until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held, or the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate, whichever is the earliest;

(e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares on the HKSE, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the HKSE for this purpose, with a total nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following completion of the Capitalization Issue and the Global Offering until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held, or the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate whichever is the earliest;

(f) the extension of the general mandate to allot, issue and deal with Shares as mentioned in sub-paragraph (d) by the addition to the aggregate nominal value of the share capital of our Company which may be allotted and issued or agreed (conditionally or unconditionally) to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the Capitalization Issue and the Global Offering; and

(g) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors are authorized to capitalize the sum of HK$5,798,052.40 and apply the same in paying up in full at par 579,805,240 Shares for allotment and issue to the Shareholders whose names appeared on the register of members of our Company at the close of business on 13 April 2010 (or as they might direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company and such Shares to be allotted and issued shall rank *pari passu* in all respects with existing issued Shares.

Immediately following the Global Offering becoming unconditional and the issue of Shares as mentioned herein being made, but taking no account of any options that may be granted pursuant to the Share Option Scheme, the authorized share capital of our Company will be HK$100,000,000 divided into 10,000,000,000 Shares and the issued share capital will be HK$7,730,952.40 divided into 773,095,240 Shares, all fully paid or credited as fully paid and 9,226,904,760 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted pursuant the Share Option Scheme, there is no present intention to issue any of the authorized but unissued share capital of our Company and no issue of Shares which would effectively alter the control of our Company will be made without the prior approval of the members of our Company in a general meeting.

4. Reorganization

Our Company underwent the Reorganization in preparation for the listing of the Shares on the HKSE which involved the following:

(a) On 12 November 2009, our Company was incorporated as an exempted company in the Cayman Islands with an authorized share capital of HK$390,000 divided into 39,000,000 Shares of par value HK$0.01 each, and the initial subscriber Share of par value HK$0.01 issued and allotted was transferred to O-Net Cayman.

(b) On 22 February 2010, our Company issued an additional 9,999 Shares of HK$0.01 each to O-Net Cayman and all the said 10,000 Shares were credited as fully paid up by our Company in consideration of the transfer by O-Net Cayman of all its shareholding interests in O-Net BVI to our Company.

(c) O-Net Holdings was incorporated on 13 January 2010 in BVI with an authority to issue up to 50,000,000 shares of US$0.001 each, and the initial subscriber share of par value US$0.001 was issued in nil-paid and allotted to Mariscal Limited.

(d) On 22 February 2010, Mandarin IT Fund I, Mariscal Limited, O-Net Employee Plan Limited, Mr. Na Qinglin and Mr. Xue Yahong transferred all their respective shares in O-Net Cayman to O-Net Holdings, to the effect that O-Net Holdings held 14,761,714 shares of O-Net Cayman after the transfer.

(e) In return, O-Net Holdings on 22 February 2010 credited the one initial subscriber share held by Mariscal Limited as fully paid up, and then issued and allotted 14,761,713 shares credited as fully paid up to such shareholders, to the effect that the total 14,761,714 issued shares in O-Net Holdings were held by them in the following manner which were in proportion to their previous shareholdings in our Company:

Name of Shareholders	Number of Shares (approximate shareholding percentage in O-Net Holdings)
Mandarin IT Fund I	7,259,139 shares (49.18%)
Mariscal Limited	3,497,793 shares (23.70%)
O-Net Employee Plan Limited	2,728,359 shares (18.48%)
Na Qinglin	1,027,365 shares (6.95%)
Xue Yahong	249,058 shares (1.69%)

(f) By way of a distribution in specie effected by O-Net Cayman on 29 March 2010 of the entire issued share capital that O-Net Cayman held in our Company, all the then shareholders of O-Net Cayman became the direct shareholders of our Company in proportion to their then shareholdings in O-Net Cayman, namely:

Name of Shareholders	Number of Shares (approximate shareholding percentage in our Company)
O-Net Holdings	5,092 shares (50.92%)
Hong Kong Kaifa	4,600 shares (46.00%)
Tam Man Chi	160 shares (1.60%)
Archcom Technology, Inc.	68 shares (0.68%)
Li Yi	52 shares (0.52%)
Liang Shaohua	14 shares (0.14%)
Ke Danqun	14 shares (0.14%)

(g) Conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors will be authorized to capitalize HK$5,798,052.40 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 579,805,240 Shares for allotment and issue to those Shareholders whose names appeared on our register of members as at the close of business on 13 April 2010.

Please refer to the paragraph headed "Reorganization" in the section headed "History and Development" in this prospectus for more details of the reorganization arrangements undergone by the Company in preparation for the Listing.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Except as mentioned in the paragraph headed "Reorganization" in this Appendix, the following subsidiary of our Company has undergone the following changes in its share capital during the two years immediately prior to the date of this prospectus:

O-Net BVI

(a) on 9 May 2008, every issued and unissued share of US$1.00 each in share capital of O-Net BVI was subdivided into 1,000 shares of US$0.001 each such that O-Net BVI shall have an authorized share capital of US$50,000 divided into 50,000,000 shares of US$0.001; and

(b) on 9 May 2008, O-Net BVI further repurchased 21,009,238 shares from O-Net Cayman.

Except as disclosed in this prospectus, there has been no other change to the share capital of any of the subsidiaries of our Company within the two years immediately prior to the date of this prospectus.

6. Repurchase by our Company of our own securities

The Listing Rules permit companies with a primary listing on the HKSE to repurchase their securities on the HKSE subject to certain restrictions, the most important of which are summarized below:

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the HKSE by a company with a primary listing on the HKSE must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction. Our Company's sole listing will be on the HKSE.

Note: Pursuant to an extraordinary general meeting of the Company on 9 April 2010, the Shareholders resolved that a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorizing any repurchase by our Company of Shares on the HKSE, or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the HKSE for this purpose, of up to 10% of the aggregate nominal value of our Company's share capital in issue and to be issued as mentioned in this prospectus (excluding Shares which may be issued pursuant to any options that may be granted pursuant to the Share Option Scheme), such mandate to expire at the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or applicable laws of the Cayman Islands to be held, or when revoked or varied by ordinary resolution of the shareholders of our Company, whichever shall first occur.

Under the Listing Rules and the Hong Kong Companies Ordinance, the shares which are proposed to be purchased by a company must be fully paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole to have general authority from the Shareholders to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value and the assets of our Company and/or the earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders as a whole.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the Company's current financial position as disclosed in this prospectus and taking into account the Company's current working capital position, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the Company's working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the Company's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate to the Company.

(d) General

None of our Directors and, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell Shares to our Company or the subsidiaries of our Company.

Our Directors have undertaken to the HKSE that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No connected person has notified us that he has a present intention to sell Shares to our Company, or has undertaken to do so.

No purchase of Shares has been made by our Company within six months prior to the date of this prospectus.

If as a result of a securities repurchase a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Takeovers Code. Accordingly, the Shareholder or a group of the Shareholders acting in concert could obtain or consolidate our Company's control and may become obliged to make a mandatory offer in accordance with rule 26 of the Hong Kong Takeovers Code and the provision may apply as a result of any such increase. Our Directors are not aware of any consequences of repurchases which would arise under the Hong Kong Takeovers Code.

(e) Share capital

Exercise in full of the Repurchase Mandate, on the basis of 773,095,240 Shares in issue immediately after completion of the Capitalization Issue and the Global Offering but taking no account of any Shares which may be issued upon the exercise of any options that may be granted pursuant to the Share Option Scheme, could accordingly result in up to 77,309,524 Shares being repurchased by our Company during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the paragraph headed "Proceedings at the Company's extraordinary general meeting" in this Appendix.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by, or relating to the reorganization of, the members of the Group within the two years preceding the date of this prospectus and are or may be material:

(a) an instrument of transfer dated 9 May 2008 entered into between O-Net Cayman and O-Net BVI, according to which O-Net BVI repurchased its 21,009,238 shares from O-Net Cayman;

(b) a settlement agreement dated 20 August 2008 in relation to a patent infringement dispute entered into between Oplink Communications, Inc., and us pursuant to which the parties agreed to a license agreement and other settlement provisions including payment of a sum of US$8,815;

(c) a share transfer agreement dated 22 February 2010 entered into between O-Net Cayman and our Company, pursuant to which O-Net Cayman transferred all the issued shares it held in O-Net BVI to our Company, and our Company (i) allotted and issued, credited as fully paid, 9,999 ordinary shares of par value of HK$0.01 each in the share capital of our Company to O-Net Cayman; and (ii) credited as fully paid at par one ordinary share of HK$0.01 which has already issued to O-Net Cayman nil-paid in the share capital of our Company;

(d) an instrument of transfer dated 29 March 2010 entered into between O-Net Cayman and O-Net Holdings, according to which O-Net Holdings acquired 5,092 Shares, representing 50.92% equity interest in our Company as a result of the distribution in specie effected by O-Net Cayman;

(e) an instrument of transfer dated 29 March 2010 entered into between O-Net Cayman and Hong Kong Kaifa, according to which Hong Kong Kaifa acquired 4,600 Shares, representing 46.00% equity interest in our Company as a result of the distribution in specie effected by O-Net Cayman;

(f) an instrument of transfer dated 29 March 2010 entered into between O-Net Cayman and Tam Man Chi, according to which Tam Man Chi acquired 160 Shares, representing 1.60% equity interest in our Company as a result of the distribution in specie effected by O-Net Cayman;

(g) an instrument of transfer dated 29 March 2010 entered into between O-Net Cayman and Archcom Technology, Inc., according to which Archcom Technology, Inc. acquired 68 Shares, representing 0.68% equity interest in our Company as a result of the distribution in specie effected by O-Net Cayman;

(h) an instrument of transfer dated 29 March 2010 entered into between O-Net Cayman and Li Yi, according to which Li Yi, acquired 52 Shares, representing 0.52% equity interest in our Company as a result of the distribution in specie effected by O-Net Cayman;

(i) an instrument of transfer dated 29 March 2010 entered into between O-Net Cayman and Liang Shaohua, according to which Liang Shaohua, acquired 14 Shares, representing 0.14% equity interest in our Company as a result of the distribution in specie effected by O-Net Cayman;

(j) an instrument of transfer dated 29 March 2010 entered into between O-Net Cayman and Ke Danqun, according to which Ke Danqun, acquired 14 Shares, representing 0.14% equity interest in our Company as a result of the distribution in specie effected by O-Net Cayman;

(k) a deed of indemnity dated 16 April 2010 among Hong Kong Kaifa, O-Net Holdings and our Company, details of which are set out in the paragraph headed "Tax and Other Indemnity" in paragraph "Other Information" of this Appendix;

(l) a deed of non-competition and undertaking dated 16 April 2010 between Hong Kong Kaifa, O-Net Holdings, Mr. Na Qinglin, Mandarin IT Fund I and our Company regarding the non-competition with the Company; and

(m) the Hong Kong Underwriting Agreement, further details of which are set out in "Underwriting – Underwriting Agreements and Expenses".

2. Intellectual property rights

(a) Trademarks

(i) As at the Latest Practicable Date, our Group has registered the following trademarks:

Trademark	Registered Owner	Place of Registration	Expiry Date	Class	Registration Number
	O-Net Shenzhen	PRC	6 February 2013	9[(1)]	1984139
昂 纳	O-Net Shenzhen	PRC	27 October 2012	9[(2)]	1984136

Notes:

(1) Optical communication device; transmitters (telecommunication); optical data media; optical apparatus and instruments; cell switches; light conducting filaments (optical fibres); stored program controlled telephone switching system; device for communications by fiber optic networks; optical sending apparatus; synthetic single crystal class crystal (optical communication).

(2) Stored program controlled telephone switching system; transmitters (telecommunication); optical sending apparatus; light conducting filaments (optical fibres); cell switches; optical communication device; device for communications by fiber optic networks; optical apparatus and instruments; optical data media; synthetic single crystal class crystal (optical communication).

(ii) As at the Latest Practicable Date, our Group has applied for registration of the following trademarks:

Trademark	Place of Application	Class	Application No.	Date of Application or Acceptance
	PRC	42	7868158(1)	27 November 2009
O-Net	PRC	42	7868149(1)	27 November 2009
昂纳	PRC	42	7864085(1)	26 November 2009
O-Net	PRC	42	7864074(1)	26 November 2009
	PRC	38	7863988(2)	26 November 2009
O-Net	PRC	38	7863960(2)	26 November 2009
昂纳	PRC	38	7863940(2)	26 November 2009
O-Net	PRC	38	7863929(2)	26 November 2009
	PRC	9	7863885(3)	26 November 2009
O-Net	PRC	9	7863853(3)	26 November 2009
昂纳	PRC	9	7863836(3)	26 November 2009
O-Net	PRC	9	7863826(3)	26 November 2009
O-Net	PRC	9	7771652(4)	20 October 2009
O-Net	PRC	9	7771672(4)	20 October 2009

Notes:

(1) Technical research; technical project studies; engineering; research and development (for others); quality testing; computer programming; computer software design; updating of computer software; duplication of computer programmes.

(2) Message sending; communications by computer terminals; electronic mail; information about telecommunication; rental of messages sending apparatus; communications by fiber optic networks; rental of telecommunication equipment; providing telecommunications connections to a global computer network.

(3) Computers; counters; data processing apparatus; weighing machines; computer peripheral devices; signal lanterns; optical discs (audio/visual); optical data media; wires, electric.

(4) Transmitters of electronic signals; transmitters (telecommunication); modems; optical communication device; network communication device; non-medical lasers; optical products; light conducting filaments (optical fibers); enoscope; optical apparatus and device; computer software (recorded); optical fibers (light conducting filaments); optical data media; optical lenses; spectroscopes.

Trademark	Place of Application	Classes	Application No.	Date of Application or Acceptance
O-Net	Hong Kong	9, 38, 40, 42	301453059	19 October 2009
昂纳	Hong Kong	9, 38, 40, 42	301453068	19 October 2009
	Hong Kong	9, 38, 40, 42	301453086	19 October 2009
O-Net	Hong Kong	9, 38, 40, 42	301453077	19 October 2009

Notes:

Class 9

Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers; calculating machines, data processing equipment and computers; fire-extinguishing apparatus; optical networking components, subcomponents, modules and subsystems; telecommunication and data networks; optical network; optical data transmission and communication systems; optical-electric subcomponents, components, modules and subsystems; cable TV equipment; optical communication products; auto-testing system (computer system) and computer information system used in factors.

Class 38

Telecommunications; communication by fiber optic network; data communication.

Class 40

Precision processing and assembly (treatment of materials) of optical materials; application of optical coatings to optical apparatus; custom manufacturing of passive and active waveguide.

Class 42

Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; design, development and customization of computer hardware namely optical and electronic firmware.

(b) Domain names

As at the Latest Practicable Date, the Company has registered the following domain name:

Domain name	Registered Owner	Expiry Date
www.o-netcom.com	O-Net Shenzhen	27 December 2011

(c) Patents

(i) As at the Latest Practicable Date, the O-Net Shenzhen is the registered owner of the following patents:

Description	Patent Number	Date of Grant	Expiry Date	Place of Registration
Variable Optical Attenuator	US7,522,808B2	21 April 2009	3 April 2028	US
Wavelength Division Multiplexed Coupler	US7,440,652B2	21 October 2008	7 June 2024	US
同一電流轉換成線性空間的電壓和對數空間的電壓的電路	ZL200820095995.4	1 August 2008	31 July 2018	PRC
可調式光隔離器	ZL200820093369.1	21 April 2008	20 April 2018	PRC
旋轉可調光隔離芯及光隔離器	ZL200820093370.4	21 April 2008	20 April 2018	PRC
光柵型光可調諧濾波器	ZL200720121779.8	27 July 2007	26 July 2017	PRC
一種光隔離器	ZL200720121780.0	27 July 2007	26 July 2017	PRC
帶監測器的可調式光衰減器	ZL200720119293.0	4 April 2007	3 April 2017	PRC
光放大器的光纖出入口結構	ZL200620017729.0	11 August 2006	10 August 2016	PRC
機械式光開關	ZL200620017727.1	11 August 2006	10 August 2016	PRC
波分複用器件	ZL200620200492.X	7 June 2006	6 June 2016	PRC
一體化封裝光電組件	ZL200520200617.4	29 August 2005	28 August 2015	PRC
單纖多向光電模塊	ZL200520200616.X	29 August 2005	28 August 2015	PRC
尾纖型光隔離器	ZL200420150856.9	1 December 2004	30 November 2014	PRC
集成波分複用耦合器	ZL200420150391.7	16 August 2004	15 August 2014	PRC
尾纖型光隔離器	ZL200420046061.3	24 May 2004	23 May 2014	PRC
在前置放大器中抑制ASE噪聲功率的裝置	ZL200420046062.8	24 May 2004	23 May 2014	PRC
多激光光束複合器	ZL200420046063.2	24 May 2004	23 May 2014	PRC

Description	Patent Number	Date of Grant	Expiry Date	Place of Registration
減少泵浦洩漏的光放大器	ZL200420046060.9	24 May 2004	23 May 2014	PRC
高隔離度的波分複用/解複用器	ZL200420044793.9	16 April 2004	15 April 2014	PRC
一種光隔離器的製作方法	ZL200410026864.7	16 April 2004	15 April 2024	PRC
高隔離度的波分複用/解複用器	ZL200420044792.4	16 April 2004	15 April 2014	PRC
多激光光束複合器	ZL200410026865.1	16 April 2004	15 April 2024	PRC
多激光光束複合器	ZL200420044789.2	16 April 2004	15 April 2014	PRC
多激光光束複合器	ZL200420044790.5	16 April 2004	15 April 2014	PRC
多激光光束複合器	ZL200420044791.X	16 April 2004	15 April 2014	PRC
多激光光束複合裝置	ZL200410026552.6	22 March 2004	21 March 2024	PRC
高透射隔離度的波分複用器	ZL200420042703.2	20 February 2004	19 February 2014	PRC
光隔離器	ZL03274168.5	5 September 2003	4 September 2013	PRC
波分複用耦合器	ZL03267395.7	10 July 2003	9 July 2013	PRC
偏振光分光/合光器	ZL01255623.8	11 September 2001	10 September 2011	PRC
緊湊型偏振無光環行器	ZL01127772.6	22 August 2001	21 August 2021	PRC
光學環行器	ZL01242741.1	19 July 2001	18 July 2011	PRC

(ii) As at the Latest Practicable Date, O-Net Shenzhen has applied for registration of the following patents:

Description	Place of Registration	Application Number	Application Date
一種光放大器	PRC	201020056470.7	13 January 2010
一種過壓保護電路	PRC	200920262082.1	28 December 2009
一種陣列光纖放大器	PRC	200920262083.6	28 December 2009
一種光隔離器件	PRC	200920262084.0	28 December 2009
一種準確調節光路徑的干涉腔	PRC	200920261841.2	22 December 2009
一種用於光器件的溫度控制裝置	PRC	200920260762.X	26 November 2009
一種環境溫度補償型的光器件	PRC	200920260763.4	26 November 2009
一種優化單信道信噪比的光放大器	PRC	200920260761.5	26 November 2009

Description	Place of Registration	Application Number	Application Date
一種利用擾動調節的光差分正交相位鍵控解調器	PRC	200920260059.9	5 November 2009
一種低功耗的泵浦驅動電路裝置	PRC	200920260058.4	5 November 2009
一種波分複用器	PRC	200920260057.X	5 November 2009
一種可調濾波器	PRC	200920206309.0	23 October 2009
一種級聯結構的梳狀光濾波器	PRC	200920206308.6	23 October 2009
一種可調式光衰減器驅動電路	PRC	200910110214.3	23 October 2009
一種集成光纖可調色散補償裝置	PRC	200920204483.1	4 September 2009
一種可調諧色散補償裝置及其調諧方法	PRC	200910109523.9	7 August 2009
一種光檢測裝置	PRC	200920134619.6	7 August 2009
一種可調色散補償裝置	PRC	200920134620.9	7 August 2009
一種光隔離器	PRC	200920133878.7	21 July 2009
一種光間隔器以及使用該光間隔器的干涉儀	PRC	200920133821.7	10 July 2009
一種高速自動增益控制的裝置和方式	PRC	200910107133.8	30 April 2009
一種環境溫度補償的干涉儀和補償方法	PRC	200910107132.3	30 April 2009
一種提高放大器中信號功率和噪聲功率比值的方法和裝置	PRC	200810216688.1	9 October 2008
改善放大器瞬態響應的方法	PRC	2008101349870	6 August 2008
一種快速高精度對數轉換裝置和方式	PRC	2008100681712	2 July 2008
一種光信號解調器和解調方法	PRC	2008100681727	2 July 2008

Description	Place of Registration	Application Number	Application Date
一種光放大器的自適應前饋控制裝置和方式	PRC	2008100676555	5 June 2008
光放大器增益平坦濾波器的譜形確定方法	PRC	200710145165.8	22 August 2007
光放大器動態泵浦耦合方法	PRC	200710075408.5	27 July 2007

Description	Place of Registration	Application Number	Receipt Date
一種準確調節光路徑的干涉腔[(1)] (A Precision and Adjustable Light Path Interference Cavity)	–	PCT/CN2010/070815	2 March 2010
一種低功耗的泵浦驅動電路裝置[(1)] (A Pump Drive Circuit Unit With Low Power Consumption)	–	PCT/CN2010/070812	1 March 2010
Tunable Filter	US	12/688,166	15 January 2010
Tunable Chromatic Dispersion Compensation Device and Method	US	12/622,187	19 November 2009
Method and apparatus for enhancing signal-to-noise power ratio in optical fiber amplifiers	US	12/571,546	1 October 2009
Self-adapting feed forward control apparatus and method in an optical amplifier	US	12/411,849	26 March 2009

Description	Place of Registration	Application Number	Receipt Date
Method for acquiring spectrum shape of a gain flattening filter in an optical amplifier	US	12/195,864	21 August 2008
一體化封裝光電組件 (Photoelectric Module with Integrated Package)(2)	US	PCT/CN2006/ 002211	28 August 2006

Note (1): As part of the application process, the place of registration will be determined at a later stage.

(2): We are in the course of distinguishing the specifications of this patent application with the one that had been successfully registered by another applicant and we consider that we may have difficulty obtaining government approval of this patent application if we fail to demonstrate the differences of our patent application with the one that had been registered.

Except as described herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to our Group's business.

3. Information about the PRC Subsidiary

Our Company has the following subsidiary established in the PRC, the basic information of which as at the Latest Practicable Date is set out below:

O-Net Shenzhen

Name of the enterprise	:	昂納信息技術(深圳)有限公司 O-Net Communications (Shenzhen) Limited
Nature	:	wholly foreign-owned enterprise
Date of incorporation	:	23 October 2000
Registered address	:	10-1 South, Maqueling Industrial Park, Nanshan District, Shenzhen 518057, China
Registered owner	:	O-Net Communications Holdings Limited
Term	:	15 years from 23 October 2000 to 23 October 2015
Registered capital	:	HK$85,000,000
Attributable interest of the Company	:	100%
Name of Directors	:	Mr. Na Qinglin, Mr. Tam Man Chi, Mr. Huang Bin, Mr. Xue Yahong, Mr. Chen Zhujiang
Legal representative		Mr. Tam Man Chi

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of interests

(a) Except as disclosed herein and in the sub-paragraph headed "Summary of material contracts" in this Appendix, none of our Directors or the experts named in the sub-paragraph headed "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of us or in any assets acquired or disposed of by or leased to the Company or is proposed to be acquired or disposed of by or leased to the Company within the two years immediately preceding the date of this prospectus.

(b) Except as disclosed in the sub-paragraph headed "Summary of material contracts" in this Appendix, none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the Company's business.

2. Particulars of service agreements

Each of the executive and non-executive Directors has entered into a service agreement with our Company commencing from 22 April 2010 for an initial fixed term of three (3) years, respectively, during which either party may terminate the service agreement by giving the other not less than three (3) months written notice.

Each of the executive and non-executive Directors is entitled to the respective basic annual salary set out below. Each of them may also receive a year end bonus in respect of each complete financial year of our Company. The bonus shall be of such amount as the Board may determine in its absolute discretion, and will be paid in arrears after the audited accounts of the Group in respect of the relevant financial year have been published. In addition, these Directors will be entitled to participate in, at the discretion of the Board, the Company's share option scheme (or other share option or incentive scheme).

Executive Director	**HK$**
Na Qinglin*	1,312,308
Xue Yahong*	967,308

* The salary of Mr. Na Qinglin and Mr. Xue Yahong will be paid in such currency as may be agreed between them and the Company from time to time with reference to the prevailing exchange rate on the date of payment.

Non-executive Director	**RMB**
Tam Man Chi	120,000
Chen Zhujiang	120,000
Huang Bin	120,000

Each of the independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the 22 April 2010 and shall be terminable by either party giving the other party not less than three (3) months written notice. Each of the independent non-executive Directors has an annual remuneration of RMB240,000.

3. Directors' remuneration

Remuneration and benefits in kind (including any salaries, fees, share options, other benefits and allowances and pension scheme contributions) of approximately HK$3.1 million in aggregate were paid and granted by the Company to our Directors in respect of the fiscal year ended 31 December 2009.

Under the current arrangements, our Directors will be entitled to receive remuneration which, for the fiscal year ending 31 December 2010, is expected to amount to approximately HK$4 million, excluding the discretionary bonuses payable to our Directors.

4. Interests and/or short positions of our Directors in our Company's shares, underlying shares or debentures and our Company's associated corporations

Immediately following completion of the Capitalization Issue and the Global Offering (but without taking into account any Over-allotment Shares which may be sold and transferred upon the exercise of the Over-allotment Option or any options that may be granted pursuant to the Share Option Scheme), our Directors will have the following interests and/or short positions in the Shares, underlying shares or debentures of our Company and the associated corporations (within the meaning of the SFO) which will have to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, will be required to be notified to our Company and the HKSE once the Shares are listed:

Long positions in the Shares

Name of the Director	Capacity	Number of Shares	Approximate Percentage in our Company
Tam Man Chi	Beneficial owner	9,337,480	1.21%

Except as disclosed above, immediately following completion of the Global Offering and the Capitalization Issue (but without taking into account any Over-allotment Shares which may be sold and transferred upon the exercise of the Over-allotment Option or any options that may be granted pursuant to the Share Option Scheme), none of our Directors will have any interests and/or short position in the Shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of the SFO) which will have to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

5. Interests and/or short positions of substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to our Directors, immediately following the completion of the Global Offering and the Capitalization Issue (but without taking into account any Over-allotment Shares which may be sold and transferred upon exercise of the Over-allotment Option or any options that may be granted pursuant to the Share Option Scheme), the following persons (not being the Director or chief executive) will have an interest or a short position in the Shares or underlying Shares which would fail to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long positions in the Shares

Name	Number of shares held	Nature of interest	Approximate percentage of issued Shares
Hong Kong Kaifa(1)	266,688,420	Beneficial owner	34.50%
Shenzhen Kaifa(1)(2)	266,688,420	Interest of a controlled corporation	34.50%
Great Wall Technology(2)	266,688,420	Interest of a controlled corporation	34.50%
O-Net Holdings(3)	295,234,280	Beneficial owner	38.19%
Mandarin IT Fund I(3)(4)	295,234,280	Interest of a controlled corporation	38.19%
HC Capital Limited(4)(5)	295,234,280	Interest of a controlled corporation	38.19%
Hsin Chong International Holdings Limited(5)(6)	295,234,280	Interest of a controlled corporation	38.19%
Meou-tsen Geoffrey YEH(6)	295,234,280	Interest of a controlled corporation	38.19%
Mandarin VP (BVI) Limited(7)	295,234,280	Investment manager of Mandarin IT Fund I	38.19%
Mandarin Venture Partners Limited(7)(8)	295,234,280	Interest of a controlled corporation	38.19%
Mr. Na Qinglin(8)	295,234,280	Interest of a controlled corporation	38.19%

Notes:

(1) Hong Kong Kaifa is a wholly-owned subsidiary of Shenzhen Kaifa; therefore, Shenzhen Kaifa is deemed to be interested in 266,688,420 Shares under the SFO.

(2) Shenzhen Kaifa is a subsidiary of Great Wall Technology; therefore Great Wall Technology is deemed to be interested in 266,688,420 Shares under the SFO.

(3) O-Net Holdings is owned as to approximately 49.18% by Mandarin IT Fund I; therefore, Mandarin IT Fund I is deemed to be interested in 295,234,280 Shares under the SFO.

(4) Mandarin IT Fund I is owned as to approximately 37.25% by HC Capital Limited; therefore, HC Capital Limited is deemed to be interested in 295,234,280 Shares under the SFO.

(5) HC Capital Limited is an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited; therefore, Hsin Chong International Holdings Limited is deemed to be interested in 295,234,280 Shares under the SFO.

(6) Meou-tsen Geoffrey YEH is the controlling shareholder of Hsin Chong International Holdings Limited and is deemed to be interested in 295,234,280 Shares under the SFO.

(7) Mandarin VP (BVI) Limited is a wholly-owned subsidiary of Mandarin Venture Partners Limited; therefore, Mandarin Venture Partners Limited is deemed to be interested in 295,234,280 Shares under the SFO.

(8) Mandarin Venture Partners Limited is owned as to approximately 75% by Mr. Na Qinglin, therefore Mr. Na Qinglin is deemed to be interested in 295,234,280 Shares under the SFO.

Except as disclosed above, so far as is known to our Directors, immediately following completion of the Global Offering and the Capitalization Issue (but without taking into account any Over-allotment Shares which may be sold and transferred upon the exercise of the Over-allotment Option or any options that may be granted pursuant to the Share Option Scheme), there is no other person (not being the Director or chief executive) who has an interest or a short position in the Shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

6. Agency fees or commission

Except as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any of our Company or the subsidiaries of our Company's share or loan capital.

7. Disclaimers

Except as disclosed in this prospectus,

(a) none of our Directors or chief executive has any interest and/or short position in the Shares, the underlying shares of our Company, listed or unlisted derivatives of or debentures or any of our Company's associated corporations (within the meaning of the SFO) which will have to be notified to our Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, will be required to be notified to our Company and the HKSE once the Shares are listed;

(b) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and the Company;

(c) none of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, the Company, or are proposed to be acquired or disposed of by or leased to the Company;

(d) none of our Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of the Company taken as a whole;

(e) taking no account of any Shares which may be taken up under the Global Offering, our Directors are not aware of any person who immediately following the completion of the Global Offering and the Capitalization Issue (but without taking into account any Shares which may be issued upon the exercise of any options that may be granted pursuant to the Share Option Scheme) will have an interest or a short position in the Shares or underlying Shares which would fail to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company; and

(f) none of the experts named in the paragraph headed "Consents of experts" in this Appendix has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or is an officer or servant or in employment of an officer or servant of the Company.

D. SHARE OPTION SCHEME

Present status of the Share Option Scheme

Application has been made to the Listing Committee for the listing of and permission to deal in 77,309,524 Shares, representing 10% of our Company's issued share capital upon Listing, which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme adopted by our Shareholders in our extraordinary general meeting on 9 April 2010 and adopted by a resolution of the Board on 9 April 2010. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules:

1. *Purpose of the Share Option Scheme*

(a) The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that Eligible Participants (as defined below) have made or may make to the Company.

(b) The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives:

(i) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of the Company; and

(ii) attract and retain or otherwise maintain an ongoing business relationship with the Eligible Participants whose contributions are, will or are expected to be beneficial to the Company.

(c) For the purpose of the Share Option Scheme, "Eligible Participant" means any person who satisfies the eligibility criteria in paragraph 2 below.

2. *Who may join and basis for determining eligibility*

(a) The Board may at its discretion grant options to: (i) any director, employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Company or a company in which the Company holds an interest or a subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Company or an Affiliate; or (iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner, advisor of or contractor to the Company or an Affiliate.

(b) In order for a person to satisfy the Board that he/she/it is qualified to be (or, where applicable, continues to qualify to be) an Eligible Participant, such person shall provide all such information as the Board may request for the purpose of assessing his/her/its eligibility (or continuing eligibility).

(c) Each grant of options to a connected person (with the meaning ascribed to it under the Listing Rules) of our Company, or any of his associates (with the meaning ascribed to it under the Listing Rules), must be approved in accordance with the requirements of the Listing Rules.

(d) Should the Board resolve that a grantee fails/has failed or otherwise is/has been unable to meet the continuing eligibility criteria under the Share Option Scheme, our Company would (subject to any relevant laws and regulations) be entitled to deem any outstanding option or part thereof, granted to such grantee and to the extent not already exercised, as lapsed, subject to the requirements in paragraph 9 below.

3. *Grant of options*

(a) On and subject to the terms of the Share Option Scheme, the Board shall be entitled at any time on a business day within ten years commencing on the effective date of the Share Option Scheme to offer the grant of an option to any Eligible Participant as the Board may in its absolute discretion select in accordance with the eligibility criteria set out in the Share Option Scheme. An offer shall be accepted when we receive the duly signed offer letter together with a non-refundable payment of HK$10 (or such other sum in any currency as the Board may determine).

(b) Subject to the provisions of the Share Option Scheme, the Listing Rules and any relevant laws and regulations, the Board may, on a case by case basis and at its discretion when offering the grant of an option, impose any conditions, restrictions or limitations in relation thereto additional to those expressly set forth in the Share Option Scheme as it may think fit (which shall be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing):

(i) the continuing eligibility of the grantee under the Share Option Scheme, and in particular, where the Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria, the option (to the extent it has not already been exercised) shall lapse, subject to the requirements in paragraph 9 below;

(ii) the continuing compliance of any such terms and conditions that may be attached to the grant of the option, failing which the option (to the extent that it has not already been exercised) shall lapse unless otherwise resolved to the contrary by the Board, subject to the requirements in paragraph 9 below;

(iii) in the event that the Eligible Participant is a corporation, that any change of the management and/or shareholding of the Eligible Participant shall constitute a failure to meet the continuing eligibility criteria under the Share Option Scheme;

(iv) in the event that the Eligible Participant is a trust, that any change of the beneficiary of the Eligible Participant shall constitute a failure to meet the continuing eligibility criteria under the Share Option Scheme;

(v) in the event that the Eligible Participant is a discretionary trust, that any change of the discretionary objects of the Eligible Participant shall constitute a failure to meet the continuing eligibility criteria under the Share Option Scheme;

(vi) conditions, restrictions or limitations relating to the achievement of operating or financial targets; and

(vii) if applicable, the satisfactory performance of certain obligations by the grantee.

(c) The Board shall not offer the grant of an option to any Eligible Participant:

(i) after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the relevant requirements of the Listing Rules; or

(ii) within the period commencing one month immediately preceding the earlier of:

(1) the date of the Board meeting (as such date is first notified to the Exchange in accordance with the Listing Rules for the approval of our Company's results for any year, half-year, quarterly or any other interim period) (whether or not required under the Listing Rules); and

(2) the deadline for our Company to publish an announcement of its result for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

(d) Any grant of options to a Connected Person must be approved by all of our Company's independent non-executive directors (excluding any independent non-executive director who is a proposed grantee).

4. *Exercise Price*

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall be not less than the highest of (i) the closing price of a Share as stated in the HKSE's daily quotations sheet on the date of grant of the relevant option, which must be a business day, (ii) an amount equivalent to the average closing price of a Share as stated in the HKSE's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option and (iii) the nominal value of a Share on the date of grant. The exercise price shall also be subject to any adjustments made in a situation contemplated under paragraph 10 below.

5. *Maximum number of Shares*

(a) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not, in aggregate, exceed 30% of our Company Shares in issue from time to time. No options may be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the said 30% limit being exceeded.

(b) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes involving the issue or grant of options or similar rights over Shares or other securities by our Company shall not, in aggregate, exceed 10% of the Shares in issue as at the date of listing of the Shares (the "Scheme Mandate Limit") unless shareholders' approval has been obtained pursuant to sub-paragraph (d) below.

(c) The Scheme Mandate Limit may be renewed by the shareholders of our Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of the approval of such renewal by the shareholders of our Company in general meeting. Upon such renewal, all options granted under the Share Option Scheme and any other share options schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share options of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit. A circular must be sent to the shareholders of our Company containing such relevant information from time to time as required by the Listing Rules.

(d) The Board may seek separate shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to the shareholders of our Company containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.

(e) No option may be granted to any Eligible Participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further share options above this limit shall be subject to certain requirements provided under the Listing Rules.

(f) The maximum number of Shares referred to in sub-paragraph (a) shall be adjusted, in such manner as our Company's auditors or our Company's independent financial advisor shall confirm in writing that the adjustments satisfy the requirements set forth in paragraph 10.

6. *Time of exercise of option*

(a) Subject to certain restrictions contained in the Share Option Scheme, an option may be exercised in accordance with the terms of the Share Option Scheme and the terms of grant thereof at any time during the applicable option period, which is not more than 10 years from the date of grant of option.

(b) There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, at the time of granting any option, the Board may, on a case-by-case basis, make such grant subject to such conditions, restrictions or limitations including (without limitation) those in relation to the minimum period of the options to be held and/or the performance targets to be achieved as the Board may determine in its absolute discretion.

7. *Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any option.

8. *Rights on ceasing to be an Eligible Participant*

Should the Board resolve that a grantee fails/has failed or otherwise is/has been unable to meet the continuing eligibility criteria under the Share Option Scheme, our Company would (subject to any relevant laws and regulations) be entitled to deem any outstanding option or part thereof, granted to such grantee and to the extent not already exercised, as lapsed, subject to the requirements of paragraph 9 below.

9. *Rights on death/ceasing employment*

(a) If the grantee (being an individual) dies before exercising the option in full, his or her legal personal representative(s) may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within a period of 12 months following his death or such longer period as the Board may determine.

(b) Subject to sub-paragraphs (c) and (d), if the grantee who is an employee ceases to be an employee for any reason other than his death, disability or the termination of his employment on one or more of the following grounds that:

(i) there is an unsatisfied judgment, order or award outstanding against the grantee or our Company has reason to believe that the grantee is unable to pay or has no reasonable prospect of being able to pay his debts;

(ii) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in sub-paragraph (i) above;

(iii) a bankruptcy order has been made against the grantee in any jurisdiction; or

(iv) a petition for bankruptcy has been presented against the grantee in any jurisdiction;

the grantee may exercise the option (to the extent exercisable as at the date of the relevant event and not exercised) within 30 days following the date of such cessation.

(c) If the grantee is an employee, director, consultant, professional, agent, partner, advisor of or contractor to the Company or an Affiliate at the time of the grant of the relevant option(s) and his employment or service to our Company is terminated on the ground of disability, the grantee may exercise the option (to the extent exercisable as at the date on which such grantee ceases to be an employee, director, consultant, professional, agent, partner, advisor of or contractor to the Company or an Affiliate and not exercised) within six months following such cessation or such longer period as the Board may determine.

(d) If the grantee is an employee at the time of the grant of the relevant option(s), in the event that such grantee shall cease to be an employee but becomes, or continues to be, a consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Company or an Affiliate, then the option (to the extent exercisable as at the date on which such grantee ceases to be an employee and not exercised) shall be exercised within three months following the date of such cessation or such longer period as the Board may determine.

(e) If the grantee is an employee at the time of the grant of the relevant option(s), in the event that such grantee shall cease to be an employee but becomes, or continues to be, a director of the Company or an Affiliate, then the option(s) (to the extent exercisable as at the date on which such grantee ceases to be an employee and not exercised) granted prior to the date of his becoming a director of the Company or an Affiliate shall remain exercisable until its expiry in accordance with the provisions of the Share Option Scheme and the terms and conditions upon which such option(s) is granted unless the Board shall determine to the contrary.

(f) If the grantee, who is a director, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Company or an Affiliate but not an employee, ceasing to be a director, consultant, customer, supplier, agent, partner or advisor of or contractor to the Company or an Affiliate (as the case may be) for any reason other than his death (in the case of a grantee being an individual) or disability (in the case of a grantee being a director or consultant of the Company or an Affiliate), the option (to the extent exercisable as at the date of such cessation and not exercised) shall be exercised within 30 days following the date of such cessation or such longer period as the Board may determine.

10. Effects of alterations to capital

In the event of any alteration in our capital structure while an option remains exercisable, and such event arises from, including a capitalization of our Company profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of the share capital of our Company, such corresponding alterations (if any) shall be made to the number or nominal amount of Shares subject to the options so far as unexercised; and/or the exercise price; and/or the method of exercise of the options; and/or the maximum number of Shares subject to the Share Option Scheme. Any adjustments required under this paragraph must give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled, but no such adjustments may be made to the extent that Shares would be issued at less than their nominal value or (unless with the prior approval from our shareholders in general meeting) to the extent that such adjustments are made to the advantage of the grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalization issue, independent financial advisor appointed by our Company or our Company's auditors must confirm to our Directors in writing that the adjustments satisfy the requirements set out in this paragraph.

11. Rights on a Takeover

If a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional (within the meaning of the Hong Kong Takeovers Code), the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within one month after the date on which the offer becomes or is declared unconditional (within the meaning of the Hong Kong Takeovers Code).

12. Rights on a Scheme of Arrangement

In the event of a compromise or arrangement between us and our members or creditors being proposed in connection with a scheme for reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), we shall give notice thereof to all grantees on the same date as it gives notice of the meeting to our members or creditors to consider such a scheme of arrangement, and thereupon the grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option (such notice to be received by our Company not later than two business days (excluding any period(s) of closure of our share registers) prior to the proposed meeting) exercise the option (to the extent exercisable as at the date of the notice to the grantee and not exercised) either in full or in part and we shall, as soon as possible and in any event no later than the business day (excluding any period(s) of closure of our share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and registered the grantee as holder thereof.

13. Rights on a Voluntary Winding up

In the event notice is given by us to our shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up us, we shall forthwith give notice thereof to the grantee and the grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option (such notice to be received by our Company not later than two business days (excluding any period(s) of closure of our share registers) prior to the proposed meeting) exercise the option (to the extent exercisable as at the date of the notice to the grantee and not exercised) either in full or in part and we shall, as soon as possible and in any event no later than the business day (excluding any period(s) of closure of our share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

14. Rights attaching to Shares upon exercise of an option

Shares allotted upon the exercise of an option shall rank *pari passu* in all respects with the existing fully paid Shares in issue at the date of allotment.

15. Lapse of options

An option (to the extent such option has not already been exercised) shall lapse and not be exercisable on the earliest of:

(a) the expiry of the exercise period;

(b) the expiry of the periods referred to in paragraph 9;

(c) the date of commencement of our Company's winding-up in respect of the situation contemplated in paragraph 13;

(d) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph 12;

(e) the date of which the grantee who is an employee ceases to be an employee by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offense involving his integrity or honesty;

(f) the happening of any of the following events, unless otherwise waived by the Board:

(i) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the grantee (being a corporation);

(ii) the grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within a meaning of section 178 of the Companies Ordinance or any similar provisions under the Companies Law) or otherwise become insolvent;

(iii) there is an unsatisfied judgment, order or award outstanding against the grantee or our Company has reason to believe that the grantee is unable to pay or has no reasonable prospect of being able to pay his/her/its debts;

(iv) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in sub-paragraphs (i), (ii) and (iii) above;

(v) a bankruptcy order has been made against the grantee or any director of the grantee (being a corporation) in any jurisdiction; or

(vi) a petition for bankruptcy has been presented against the grantee or any director of the grantee (being a corporation) in any jurisdiction;

(g) the date on which a situation as contemplated under paragraph 7 arises;

(h) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise resolved to the contrary by the Board; or

(i) the date on which the Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria as may be prescribed pursuant to paragraph 8.

16. *Cancellation of options granted*

The Board shall have the absolute discretion to cancel any options granted at any time if the grantee so agrees provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued Shares in the authorized share capital of our Company, and available ungranted options (excluding for this purpose all the cancelled options) within the limits referred to in paragraph 5.

17. *Period of the Share Option Scheme*

Options may be granted to Eligible Participants under the Share Option Scheme during the period of ten years commencing on the effective date of the Share Option Scheme.

18. *Alteration to Share Option Scheme and Termination*

(a) The Share Option Scheme may be altered in any respect by resolution of the Board except those specific provisions relating to matters in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) may not be altered to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of our Company in general meeting.

(b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the shareholders of our Company in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

(c) We by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

19. Conditions of the Share Option Scheme

The Share Option Scheme shall take effect subject to the passing of the necessary resolution to adopt the Share Option Scheme by our shareholders in a special general meeting of our Company and is conditional upon the Listing Committee granting approval for the listing of and permission to deal in any Shares to be issued and allotted by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme.

20. Administration of the Share Option Scheme

The Share Option Scheme shall be subject to the administration of the Board or any committee established by the Board from time to time, whose decision (except as otherwise provided in the Share Option Scheme) shall be final and binding on all parties.

E. OTHER INFORMATION

1. Tax and other Indemnity

Hong Kong Kaifa and O-Net Holdings (the "Indemnifiers") have entered into a deed of indemnity in favour of our Company (being a material contract referred to in the section headed "Summary of material contracts" in this Appendix) to provide the following indemnities in favour of our Company.

Under the deed of indemnity, amongst others, the Indemnifiers will indemnify each of the members of our Group against (a) taxation falling on any member of our Group resulting from, or by reference to, any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the date of fulfilment of the last of the conditions set out in the sub-section headed "Conditions of the Global Offering" under the section headed "Structure of the Hong Kong Public Offering" of this prospectus and (b) other taxation (including all actions, claims, losses, damages, costs, charges, expenses and liabilities (including but not limited to losses of the business suffered) arising from or as a result of any non-compliances with any applicable rules or regulations or contractual obligations or other commitments; and all costs or expenses, losses and/or other liabilities incurred by our Group in relation to any outstanding or unsettled legal and arbitration proceedings, investigations and/or claims to the extent exceeding the relevant amounts of provisions made by the Group.

The Indemnifiers will, however, not be liable under the deed of taxation where, among others, (a) provision has been made for such taxation in the audited accounts of our Company; (b) the taxation falling on our Company and our subsidiaries in respect of any accounting period commencing on or after 1 January 2010 unless liability for such taxation would not have arisen but for some event entered into by the Indemnifiers or any member of our Group (whether alone or in conjunction with some other event whenever occurring) otherwise than in the course of normal day to day trading operations on or before the Listing Date; and the taxation arises or is incurred as a consequence of any change in law or regulation or the interpretation thereof or practice by Hong Kong Inland Revenue Department or any other relevant tax authority coming into force after the date on which the Global Offering becomes unconditional having retrospective effect.

2. Litigation

As at the Latest Practicable Date, the Company was not engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against the Company.

3. Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein, including any Shares that may be issued upon the exercise of the Over-allotment Option and any Shares failing to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

4. Preliminary expenses

The estimated preliminary expenses of our Company are approximately US$4,735 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Consents of experts

The Sole Sponsor, PricewaterhouseCoopers, Global Law Office, Conyers Dill & Pearman, and Jones Lang LaSalle Sallmanns Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation certificate, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
CLSA	Licensed to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities as set out in Schedule 5 to the SFO
PricewaterhouseCoopers	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	Property valuer
Global Law Office	Legal advisors on PRC laws
Conyers Dill & Pearman	Legal advisors on the Cayman Islands laws

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

8. Miscellaneous

(a) Save as disclosed in paragraph 4 of this Appendix, within the two years preceding the date of this prospectus, none of our Company's or the subsidiaries of our Company's share or loan capital has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash.

(b) Within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any of our Company's or the subsidiaries of our Company's share or loan capital.

(c) Within the two years preceding the date of this prospectus, none of our Company's or the subsidiaries of our Company's share or loan capital is under option or is agreed conditionally or unconditionally to be put under option.

(d) There has been no material adverse change in the Company's financial position or prospects since 31 December 2009 (being the date to which the Company's latest audited combined financial statements were made up).

(e) Within the two years preceding the date of this prospectus, no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any of the Company's shares.

(f) Our Company has no founder shares, management shares or deferred shares.

(g) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

9. Bilingual Prospectuses

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Hong Kong Companies Ordinance (Exemption of Companies and prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

10. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2009 (being the date of our latest audited combined financial results of our Company as set out in Appendix I to this prospectus).

11. Particulars of the Over-allotment Grantors

The particulars of the Over-allotment Grantors are as follows:

(1)	Name	:	O-Net Holdings (BVI) Limited
	Description	:	Controlling Shareholder
	Registered Address	:	Codan Trust Company (B.V.I.) Ltd. of Romasco Place, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110
	Number of Shares to be granted	:	15,230,817 Shares
(2)	Name	:	Kaifa Technology (H.K.) Limited
	Description	:	Controlling Shareholder
	Registered Address	:	Room 2201, Hong Kong Worsted Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong
	Number of Shares to be granted	:	13,759,183 Shares

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration included copies of the Application Forms, written consents referred to in "Appendix VI – Statutory and General Information – Consents of Experts" to this prospectus, statement of particulars of the Over-allotment Grantors and copies of material contracts referred to in "Appendix VI – Statutory and General Information – Summary of material contracts" to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Deacons at 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) our Memorandum and Articles of Associations;

(b) the accountants' report of the Group, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements of the companies comprising the Group for the three years ended 31 December 2009 (or the period since their respective dates of incorporation where it is shorter) if any;

(d) the report in relation to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the letters relating to the profit forecast for the six months ending 30 June 2010 of the Group, the text of which is set out in Appendix III to this prospectus;

(f) the letters, summary of valuation and valuation certificates relating to our property interests prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix IV to this prospectus;

(g) the PRC legal opinion issued by Global Law Office, our legal advisor on PRC law, in respect of, among other things, general matters, property interests and taxation matters of the Company;

(h) the letter prepared by Conyers Dill & Pearman, our legal advisors on Cayman Islands law, summarizing certain aspects of Cayman Islands Companies Law referred to in Appendix V to this prospectus;

(i) the Cayman Islands Companies Law;

(j) the material contracts referred to in the section headed "Statutory and General Information – Summary of material contracts" in Appendix VI – to this prospectus;

(k) the written consents referred to in the section headed "Statutory and General Information – Consents of Experts" in Appendix VI – to this prospectus;

(l) the rules of the Share Option Scheme;

(m) the service agreements referred to in the section headed "Statutory and General Information – Particulars of service agreements" in Appendix VI – to this prospectus; and

(n) the statement of particulars of the Over-allotment Grantors.

O-Net Communications (Group) Limited
昂 納 光 通 信 (集 團) 有 限 公 司