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)

ANNUAL REPORT 2011

Corporate Vision

O-Net's vision is to become a leading supplier of optical networking component solutions to the global market through its relentless pursuit of technology innovations and emphasis on product quality.

O-Net's Mission

To create value for our customers, career for our employees, growth for our suppliers and partners, contribution to the local community and return to our shareholders.

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Corporate Information

COMPANY NAME

O-Net Communications (Group) Limited

FINANCIAL YEAR END

31 December

PLACE OF INCORPORATION

Cayman Islands

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1–1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

10–1 South
Maqueling Industrial Park
Nanshan District
Shenzhen
China
Postal Code: 518057

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1608
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE

www.o-netcom.com

BOARD OF DIRECTORS

Executive Directors

Mr. Na Qinglin *(Co-Chairman of the Board and Chief Executive Officer)*
Mr. Xue Yahong

Non-Executive Directors

Mr. Tam Man Chi *(Co-Chairman of the Board)*
Mr. Chen Zhujiang
Mr. Huang Bin

Independent Non-Executive Directors

Mr. Bai Xiaoshu
Mr. Deng Xinping
Mr. Ong Chor Wei

AUDIT COMMITTEE

Mr. Ong Chor Wei *(Chairman of Audit Committee)*
Mr. Bai Xiaoshu
Mr. Deng Xinping

NOMINATION COMMITTEE

Mr. Na Qinglin *(Chairman of Nomination Committee)*
Mr. Tam Man Chi
Mr. Bai Xiaoshu
Mr. Deng Xinping
Mr. Ong Chor Wei

REMUNERATION COMMITTEE

Mr. Tam Man Chi *(Chairman of Remuneration Committee)*
Mr. Na Qinglin
Mr. Bai Xiaoshu
Mr. Deng Xinping
Mr. Ong Chor Wei

AUTHORIZED REPRESENTATIVES

Mr. Na Qinglin
Mr. Kung Sze Wai *(AAIA, AHKICPA)*

ALTERNATE AUTHORIZED REPRESENTATIVE

Mr. Xue Yahong *(alternate to Mr. Na Qinglin)*

COMPANY SECRETARY

Mr. Kung Sze Wai *(AAIA, AHKICPA)*

INVESTOR RELATIONS CONTACT

Mr. Kung Sze Wai *(AAIA, AHKICPA)*
Vice President of Finance
Tel: (852) 2307–4100
Fax: (852) 2307–4300
E-mail: ir@o-netcom.com

LEGAL ADVISORS TO THE COMPANY

As to Hong Kong law:
Deacons

As to Chinese law:
Global Law Office

As to Cayman Islands law:
Conyers, Dill & Pearman

As to U.S. law:
Shearman & Sherling

AUDITOR

PricewaterhouseCoopers

PROPERTY VALUER

Jones Lang LaSalle Sallmanns Limited

STOCK OPTION VALUER

RHL Appraisal Limited

COMPLIANCE ADVISOR

Quam Capital Limited

PRINCIPAL BANKERS

China
China Merchants Bank
China Construction Bank
China Bohai Bank

Hong Kong
The Hongkong & Shanghai Banking Corporation Limited

STOCK INFORMATION

Place of Listing
The Stock Exchange of Hong Kong Limited

Stock Code
0877

Listing Date
29 April 2010

Issued Share Capital
799,987,240 shares

Board Lot Size
1,000 shares

CAYMAN SHARE REGISTRAR

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. 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

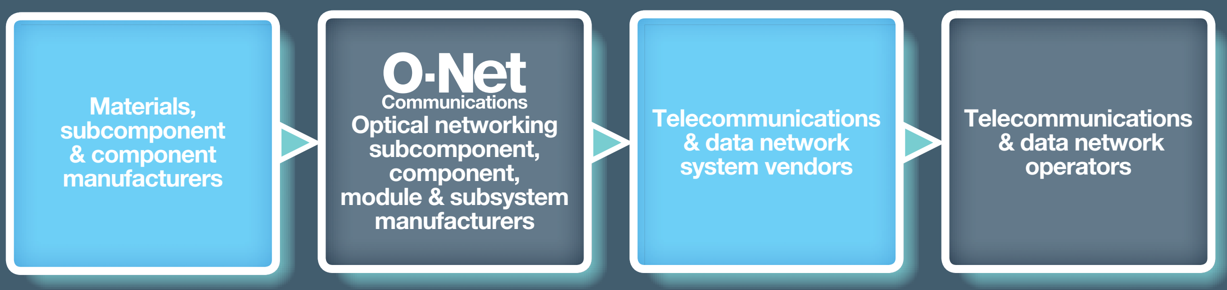
Corporate Profile

Listed on the Main Board of The Stock Exchange of Hong Kong Limited since April 2010, O-Net Communications (Group) Limited (stock code: 877) is one of the largest suppliers of optical networking products in the world.

O-Net's core business comprises of supplying optical networking subcomponents, components, modules and subsystems to telecommunications and data network system vendors for their high-speed telecommunications and data communications network applications.

A Leading Supplier

O-Net is a leading supplier of passive optical networking products supplying to telecommunications and data network system vendors

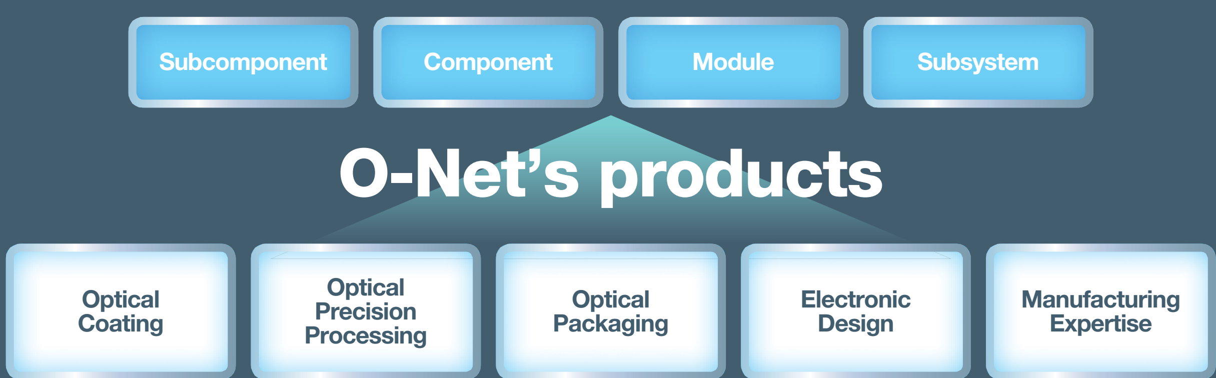


Leveraging our Five Core Technology Platforms, we apply our extensive technology know-how and manufacturing expertise to design and manufacture high quality products for our customers. As part of our customer service, we customize cost-effective solutions for our customers based on their product requirements.

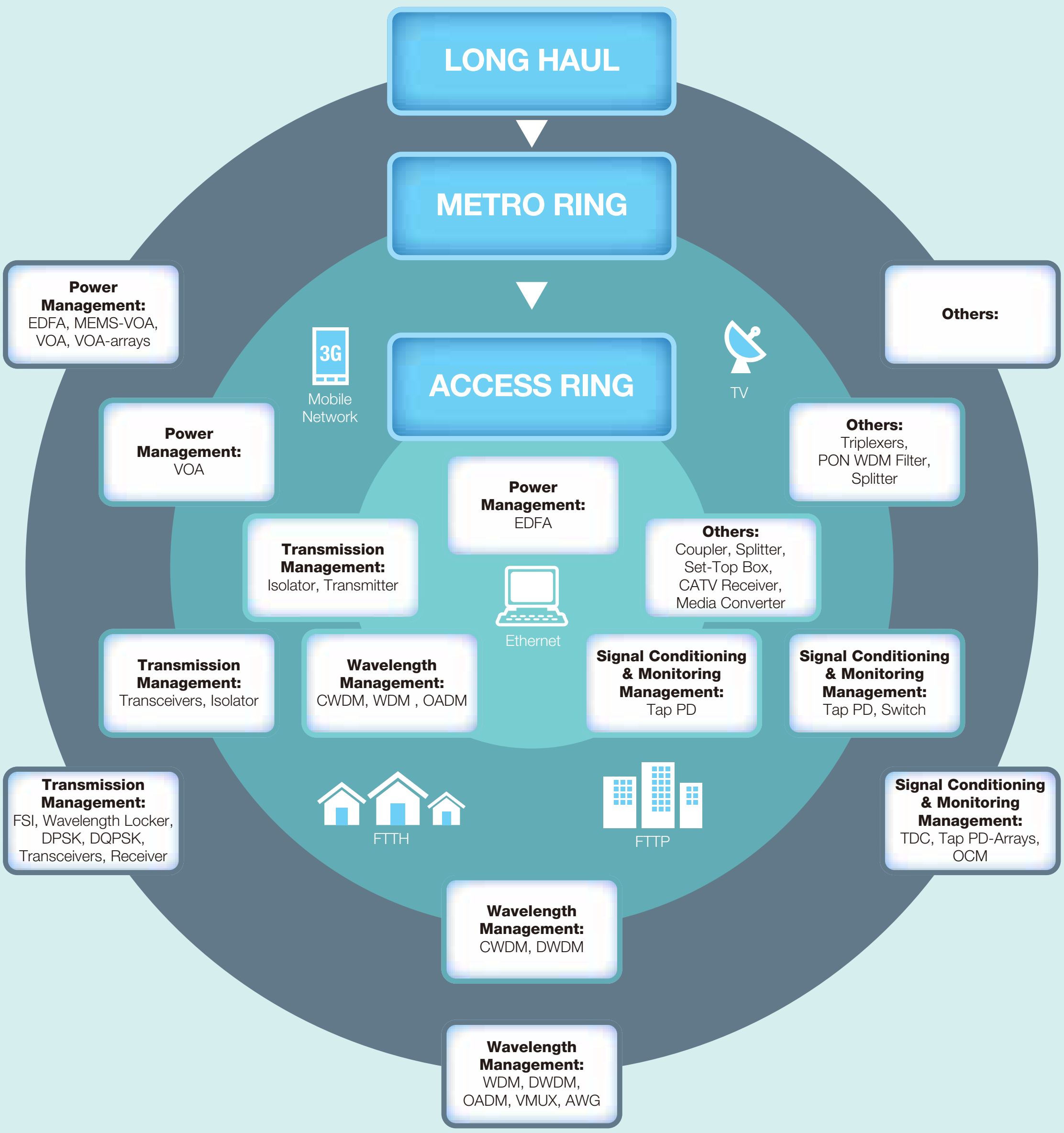
Since O-Net's incorporation in 2000, we have successfully developed a broad product portfolio comprising over 40 product series, and have launched over 8,000 products into the global market. This is a testament to the viability and strength of our vertically integrated business model, as well as our products' superior design, quality and performance.

Five core technology platforms

Five core technology platforms developed through years of continuous research and development



Broad Product Range



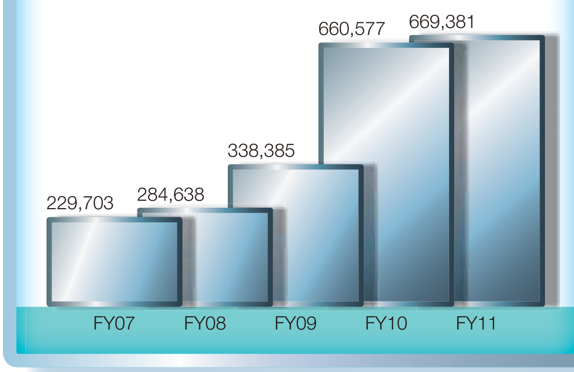
Connecting THE WORLD

Connecting the World is our theme for this year's annual report. As a leading supplier in the fiber optic component industry, O-Net takes an active role in Connecting the World by supplying high quality optical networking products and solutions to customers globally for making quality, high-speed telecommunication and data connections.

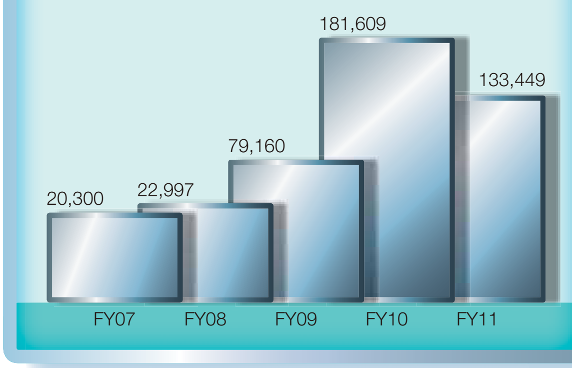
With its core technologies, ingenious engineering designs, strong customer base and extensive manufacturing expertise in major optical technologies, O-Net is poised to thrive and move rapidly ahead to the forefront of the global fiber optic component industry.

Financial Highlights

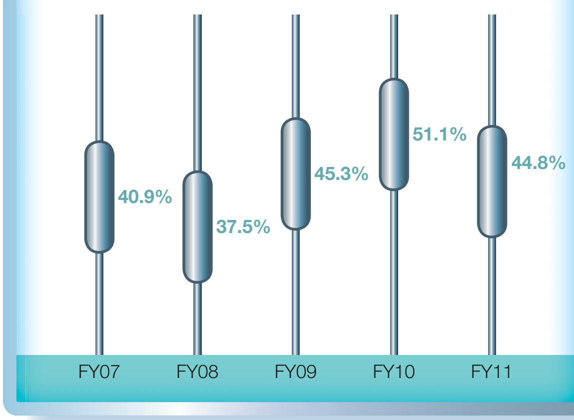
REVENUE
(HKD'000)



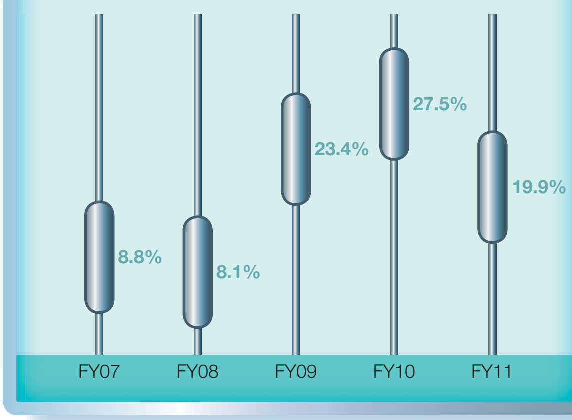
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY
(HKD'000)



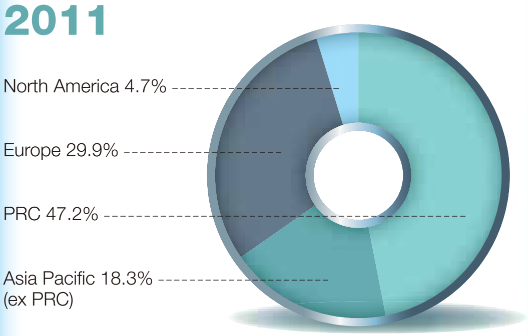
GROSS PROFIT MARGIN



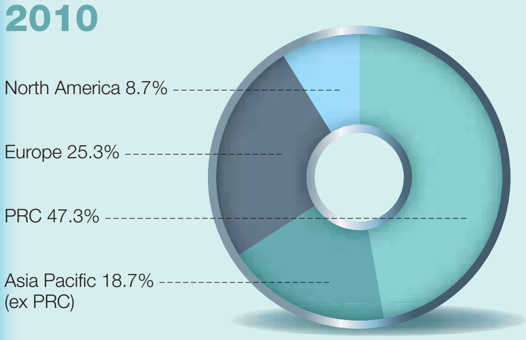
NET PROFIT MARGIN



REVENUE BY GEOGRAPHICAL SEGMENT
2011



REVENUE BY GEOGRAPHICAL SEGMENT
2010



Chairman's Statement

As a high-technology company, we believe innovation is the key to our future. We view R&D as the growth engine of our business. We are focused on strengthening our R&D capabilities and implementing key R&D initiatives to maintain our leadership position in the global fiber optic component industry.

Dear Shareholders,

On behalf of the Board, I am pleased to present to you O-Net Communications (Group) Limited's annual report for the financial year ended 31 December 2011 ("FY2011").

We faced a number of challenges in FY2011. Global macroeconomic uncertainties and industry-wide factors affected our business in FY2011.The inventory correction that occurred in our industry during the first half of the year dampened our sales growth as customer orders dropped. The two natural disasters that took place during the year – the Japan tsunami in the first quarter followed by Thai flood in the fourth quarter also affected our customers' operation, which in turn created a negative impact on the demand for our products. To mitigate the adverse impact of these influences to our business, the management and our other employees have worked hard throughout the year to achieve our business targets.

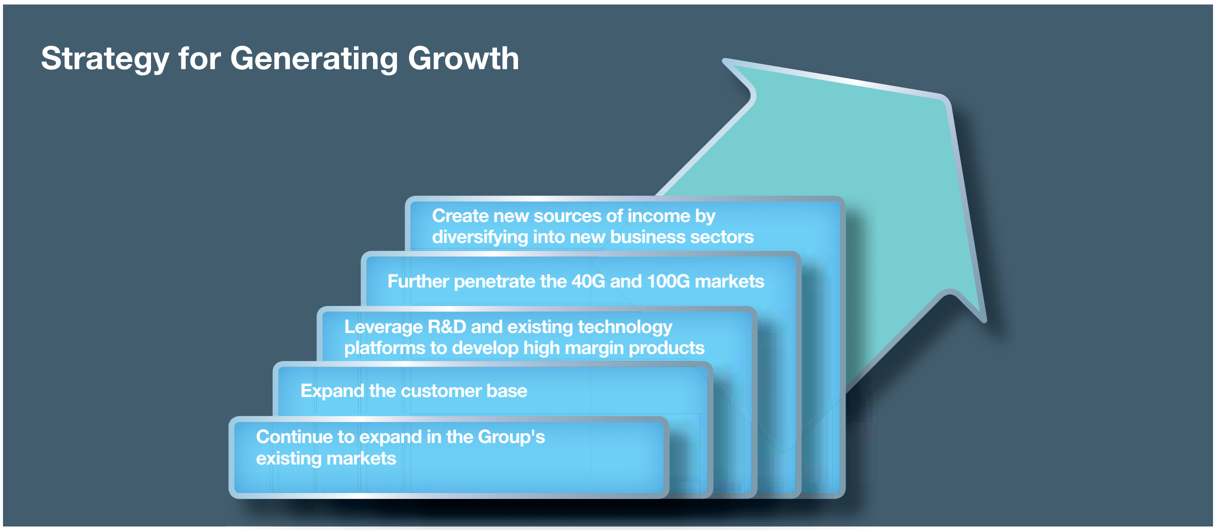
Starting from the second half of FY2011, our business was on the recovery trend as the inventory correction at system vendors came to an end. We also benefited from the fact that since some of our peers' supply chains were disrupted during the Thai flood, we received extra purchase orders from customers to compensate for others' delivery shortfall. Thanks to our flexible in-house manufacturing system, we were able to quickly ramp up our capacity to cope with the unexpected rise in demand requests, and completed delivery to the satisfaction of our customers.

REVENUE GROWTH AND STRONG CASH POSITION

Despite the hurdles we encountered during the year, I am glad to report a successful FY2011 during which we achieved total revenue of HKD669.4 million as compared to HKD660.6 for the financial year ended 31 December 2010 ("FY2010"). This was made possible with our management team's strong efforts in customer development and product introduction, as well as their relentless drive to grow our business. In regards to profit, net profit declined by 26% in FY2011 when compared to that for FY2010, primarily due to the facts that a higher portion of lower margin legacy products were sold during the year, and that there was an increase in various expenses including increase in non-cash stock option expenses during the year. Despite the GAAP net profit decline, we still achieved solid cash flow performance in the year under review. For the whole year, our operating cash inflow was HKD189.3 million. As a result, our cash position remained strong with over HKD885.6 million in cash as at 31 December 2011.

DIVIDEND

To reward our shareholders, the Board has recommended a final dividend of HKD0.03 per ordinary share in respect of FY2011, which is subject to shareholders' approval at the forthcoming Annual General Meeting of the Company to be held on Tuesday, 8 May 2012.



STRENGTHENING R&D

As a high-technology company, we believe innovation is the key to our future. We view research and development ("R&D") as the growth engine of our business. We are determined to strengthen our R&D capabilities so that we can introduce new products fast enough to capture our customers' qualification windows. To this end, we have taken a few initiatives to improve our R&D work. We made a series of high-level recruitments for our R&D team including a new head of R&D. We also redesigned our training programs for our engineers so that they can learn and improve their design skills. We have also put more emphasis on R&D project management to achieve better design quality and reduce systematic defects at the early stage. With our new R&D Centre scheduled for a grand opening in the year 2012, along with the key R&D initiatives we have planned for the upcoming year, we believe O-Net is poised to maintain its leadership position in the global fiber optic component industry.

FUTURE GROWTH STRATEGIES

We believe the fiber optic component industry is at its most dynamic stage right now. With Internet innovations still continuing, new applications will keep driving the revolution of networking technologies, and fiber optic components are expected to have many great years in the future. To capture such an opportunity, we will continue to invest aggressively on next-generation technologies. We have built a highly efficient R&D team and system. Additionally, we have set up a solid technology innovation roadmap for the next three years, including fast-growing 40G/100G, and tunable products. This, combined with our continuing efforts in new customer development, shall enable our optical networking business to enjoy steady growth in the future.

Going forward, we will also carefully study additional business opportunities. O-Net is a company with over 10 years of experience on optical, mechanical and electronic technology accumulations. Leveraging such existing technology platforms, we plan to diversify, step by step, into adjacent markets. A few areas we are evaluating include fiber laser and related equipment, and visual inspection and automation markets.

In summary, with our proven track record, strong customer base, vertical integration advantages and enhanced R&D capabilities, we are confident we will on one hand continue our success in the fiber optic component industry, and by taking advantage of our technology basis, we will on the other hand penetrate into other fast-growing markets.

APPRECIATION

I would like to take this opportunity to thank you, our valued shareholders, for your continued support and trust in O-Net. I also wish to thank our customers and business partners for their loyalty to the Group over the years. We envisage a very bright future for O-Net. We will continue to work hard and smart to take O-Net to a higher stage of growth.

Na Qinglin
Co-Chairman and Chief Executive Officer
Hong Kong, 13 March 2012

Management Discussion and Analysis

The Group has focused on the research, development, manufacturing and sale of passive optical networking products which include subcomponents, components, modules and subsystems mainly used in broadband and fiber optic network systems. Based on our core proprietary technologies and vertically integrated business model, the Group designs, manufactures and markets its innovative optical networking products to leading telecommunications and data network system vendors.

INDUSTRY AND BUSINESS REVIEW

2011 was a challenging year for O-Net. Nevertheless, the Group managed to generate revenue growth in FY2011.

Industry Review

On an industry-wide level, the overall demand for optical networking components dropped in 2011 due to several reasons. Firstly, macroeconomic uncertainties, including those that were brought about by the European debt crisis affected our industry. The Group, as one of the major players in the optical networking products industry, was not immune to such an influence. Secondly, industry-wide inventory correction took place in 2011. As telecommunication equipment makers overstocked inventory in 2010 and in the first quarter of 2011, the Group experienced a significant cut back in customer orders in the second quarter of the year. This caused a drop in sales revenue in the second and third quarters of the year. Lastly, the Japan earthquake as well as the severe floods that occurred in Thailand during the year also took their toll on the fiber optic components industry.

Despite the challenges that the Group faced in 2011, the overall global demand for O-Net's products remained strong in 2011. Sales improved in the second half of the year as inventory correction subsided in the third quarter, and was over by the fourth quarter of the year. In addition, the Group gained market share from its competitors as the severe flooding that took place in Thailand during the second half of the year suspended the competitors' production and consequently, the Group received additional orders in the fourth quarter of 2011. The Group expects the growth opportunity stemming from the flooding in Thailand to continue into the first quarter of 2012.

Business Review

At the Group level, there were a couple of factors that affected the Group's growth in FY2011. One of the factors was the new product development issues which encompassed the Tunable Dispersion Compensator ("TDC"). As the yield issue pertaining to the TDC was resolved via the redesign and rigorous qualification process which took place during the year, the Group had made small volume shipments of this product to customers up to the end of the year. The Group believes that it will be able to make larger volume shipments to customers in 2012, especially after the improved and redeveloped TDC is qualified by more customers in the near future.

Another factor that dampened the Group's growth in FY2011 was the investment made in growing the R&D team and the increased investment on R&D projects during the year. Specifically, these investments have eroded the Group's bottom line growth in FY2011. As a technology driven company, the Group plans to maintain its strong market position by continuing to focus on the R&D of new products. Such R&D investments are crucial for the Group's future growth and development. Investing in key R&D areas is also expected to benefit the Group by enabling the Group to enhance the overall R&D function, develop more new products, develop products at a faster rate, as well as significantly improve the Group's product innovation capabilities.

FINANCIAL REVIEW

Revenue

Revenue in FY2011 which totalled HKD669.4 million, represents an increase of HKD8.8 million compared to revenue of HKD660.6 million in FY2010. This growth in revenue was attributable to strong growth in first quarter revenue which was more than enough to compensate for the decline in second quarter revenue. The steady improvement in demand in the second half of the year also contributed to the rise in revenue in FY2011.

Gross Profit and Gross Profit Margin

Gross profit for FY2011 was HKD299.8 million representing a decline of HKD38.0 million, or 11.2%, from the gross profit of HKD337.8 million in FY2010. Gross profit, as a percentage of total revenue or gross profit margin, dropped to 44.8% in FY2011 as compared to 51.1% in FY2010. During the year, although revenue had slightly improved, gross profit margin suffered a negative growth when compared with the previous year. Even though the Group had continued to launch more new products into the market during the year including next-generation products, the drop in gross profit margin was primarily due to a higher mix of relatively lower margin legacy products, including the products that were related to the FTTx optical network systems and the products that were strongly demanded by customers due to the severe floods in Thailand.

Other Gains

Other gains in FY2011 grew by 492.1% to HKD6.7 million, from HKD1.1 million in FY2010. This growth was primarily due to the increase in government grants by HKD5.6 million from HKD0.4 million to HKD6.0 million in FY2011.

Selling and Marketing Costs

Selling and marketing costs of HKD35.3 million in FY2011 represents an increase of HKD2.3 million, or 6.3%, compared to the selling and marketing costs of HKD33.0 million in FY2010. Selling and marketing costs as a percentage of revenue increased to 5.3% in FY2011 as compared to 5.0% in FY2010. The increase in selling and marketing costs in FY2011 was primarily due to the rise in overall sales personnel staff costs, even though the sales commission we paid to our sales distributors around the world decreased.

Sales commissions in FY2011 was HKD18.5 million. This represents a decrease of HKD1.1million, or 5.8%, from HKD19.6 million in the previous year. We generally do not incur distributor commission for sales in China. The effective commission rate, which is the result of total commissions paid by the Group divided by total overseas revenue, was 5.2% in FY2011 and 5.6% in FY2010. The decrease in sales commission and the effective commission rate were primarily due to the fact that we paid lower commissions on the legacy products sold which contributed a higher sales mix during the year. The reduction in the commission rate paid to distributors in FY2011 also contributed to the decrease in sales commission for FY2011.

In FY2011, the salary and share option costs were HKD6.0 million and HKD1.8 million respectively, representing an increase of 66.3% and 36.3% compared with FY2010. The increase was primarily attributable to rising wages and additional share options granted to our sales personnel.

Research and Development Expenses

In FY2011, R&D expenses increased by 59.8% to HKD50.9 million, from HKD31.8 million in FY2010. Meanwhile, R&D expenses as a percentage of revenues increased to 7.6% in FY2011 as compared to 4.8% in FY2010. This increase and its percentage of revenues were primarily attributable to stepping up our investments in the new products R&D projects, which includes the purchase of raw materials and equipments for the related R&D projects. The rise in R&D expenses was also due to the hiring of R&D engineers and increasing the overall R&D engineers cost during the year.

Raw material costs used by the R&D projects amounted to HKD19.8 million in FY2011. This represents an increase of 27.6% from HKD15.5 million in FY2010. Meanwhile, depreciation of fixed assets in FY2011 amounted to HKD2.4 million, which is an increase of 91.9% given the corresponding figure of HKD1.3 million in FY2010. The increase of raw materials and fixed assets used for the R&D projects was primarily attributable to the additional R&D projects for new products that the Group undertook during the year, particularly the next-generation products in the 40G and 100G areas.

The salary and share option costs were HKD20.4 million and HKD4.6 million respectively. This equates to an increase of 79.4% and 181.0% when compared with last year. The increase was primarily attributable to the increased hiring of R&D engineers, rising wages and the additional share options granted to our R&D engineers.

Administrative Expenses

Administrative expenses in FY2011 were HKD90.2 million, which is 34.1% higher compared to HKD67.3 million in FY2010. Administrative expenses as a percentage of revenues increased to 13.5% during FY2011 as compared to 10.2% in FY2010. The increase in administrative expenses in FY2011 and its percentage of revenue was primarily attributable to the increasing overall staff costs including the result of expansion in operation scale.

The salary and share options cost in FY2011 were HKD38.9 million and HKD21.5 million respectively, which represents an increase of 45.2% and 147.5% compared the corresponding figures in the previous year. This increase was primarily attributable to our strengthened efforts in hiring new staff, rising wages and the additional share options granted to our staff.

Finance Income

Net finance income for FY2011 which amounted to HKD24.1 million, is an increase of HKD27.1 million from the net finance cost of HKD3.0 million in FY2010. The rise in net finance income was due to the increase in bank interest income and foreign exchange gain. The growth in bank interest income as represented by the HKD8.3 million figure was primarily attributable to the net proceeds from the IPO and the share placement on 15 November 2010 (the "Placement") being deposited as term deposits during the year. The increase in exchange gain of HKD19.0 million was primarily attributable to the fact that most of the cash was held in RMB rather than the functional currency of the Company.

Profit Before Tax and Profit Before Tax Margin

Profit before tax decreased by HKD49.5 million from HKD203.7 million for FY2010 to HKD154.2 million for FY2011. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 30.8% for FY2010 to 23.0% for FY2011. The decrease in profit before tax and profit before tax margin for the year was primarily due to decrease in gross profit margin and increase in operating expenses as described above.

Income Tax Expenses

Currently, income tax expenses of the Group consist of Hong Kong profits tax and PRC Enterprise Income Tax ("PRC EIT").

The applicable tax rate for Hong Kong profits is 16.5%.

PRC EIT is based on the assessable income of entities within the Group that are incorporated in the PRC, and adjusted for items which are not assessable or deductible for the PRC EIT purpose.

Income tax expenses in FY2011 amounted to HKD20.7 million. This represents a drop of HKD1.4 million, or 6.2% from the income tax expense of HKD22.1 million in FY2010. The drop in income tax expenses was primarily due to a decline in net profits before tax in FY2011, even the enacted tax rate of the Group's subsidiary located in the PRC, O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen"), rose from 11% in FY2010 to 15% in FY2011.

Profit Attributable to Equity Holders of the Company and Net Profit Margin

In FY2011, profit attributable to equity holders decreased by HKD48.2 million to HKD133.4 million, as compared to HKD181.6 million in FY2010. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, decreased from 27.5% in FY2010 to 19.9% in FY2011. The decrease in profit attributable to equity holders and net profit margin for FY2011 was primarily due to the decrease in gross profit margin plus an increase in operating expenses and the enacted tax rate as described above.

NON-GAAP FINANCIAL PERFORMANCE

Reconciliation of Non-GAAP Financial Measures

The Group believes that providing non-GAAP financial measures is helpful to investors that compare our financial performance with most of the comparable companies listed on NASDAQ in the United States, which also provides non-GAAP financial measures. Generally, these non-GAAP financial measures are a numerical measure of a Group's performance and financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). A reconciliation of non-GAAP financial measures can be found in the accompanying tables. The Group believes that while these non-GAAP financial measures are not a substitute for results, they provide a basis for evaluating the Company's cash requirements for ongoing operating activities. These non-GAAP financial measures have been reconciled to the nearest measures as required under HKFRS issued by the HKICPA.

	Year ended 31 December	
	2011	2010
	HKD'000	HKD'000
Adjustment to measure non-GAAP gross profit		
Gross Profit	**299,836**	377,816
Adjustment related to cost of sales		
Provision for/(write back of) inventories provision	**2,820**	(1,073)
Non-GAAP Gross Profit	**302,656**	336,743
Adjustment to measure non-GAAP net profit		
Net profit	**133,449**	181,609
Adjustment related to cost of sales		
Provision for/(write back of) inventories provision	**2,820**	(1,073)
	136,269	180,536
Adjustments to measure to operating expenses		
Share options granted to Directors, employees and sales distributors	**27,864**	11,587
Amortization of intangible assets	**871**	807
Non-GAAP Net Profit	**165,004**	192,930
Non-GAAP EPS		
– Basic	**0.20**	0.27
– Diluted	**0.20**	0.27
Gross Profit Margin	**44.8%**	51.1%
Non-GAAP Gross Profit Margin	**45.2%**	51.0%
Net Profit Margin	**19.9%**	27.5%
Non-GAAP Net Profit Margin	**24.7%**	30.2%

Non-GAAP Profit Analysis

Non-GAAP net income for FY2011 was HKD165.0 million, or HKD0.20 per share, compared to non-GAAP net income of HKD192.9 million, or HKD0.27 per share, reported for FY2010. Non-GAAP results for FY2011 exclude HKD2.8 million in provision for excess and obsolete inventory, HKD27.9 million in share options granted to Directors and employees expenses and HKD0.9 million in amortization of intangible assets. Non-GAAP results for FY2010 exclude HKD1.0 million in reversal of excess and obsolete inventory, HKD11.6 million in share options granted to Directors and employees expenses and HKD0.8 million in amortization of intangible assets.

RESEARCH AND DEVELOPMENT

The R&D function is critical for the future development of the Group. During the year, the Group introduced the following 'Three Strategic Initiatives' for implementing its expansion and improvement in its R&D function.

Initiative 1: Strengthen the R&D team

The Group has always regarded its people as one of its greatest assets. In order to maintain its competitiveness in the rapidly changing passive optical networking products market, the Group has been continuously strengthening its R&D team by providing quality training programs to the R&D employees and recruiting the best R&D talent. To this end, the Group had hired a new Head of R&D. With all the new talent we have injected into our R&D team, this has enhanced our R&D capabilities considerably, including our ability to innovate and develop high quality, innovative products that are sought by the global market. As such, we view our strong R&D team as a key competitive advantage in propelling the Group to a higher level of growth.

Initiative 2: Restructuring the R&D process

Through the R&D restructuring process that took place in 2011, significant improvements were made to our product development processes including strengthened R&D responsiveness to marketing requests and the redefinition of the roles of project leaders. The improved R&D processes are expected to prevent the reoccurrence of the product development issues in the future. The Group believes that the enhancements made in this area will place the Group on a firmer footing for future growth.

Initiative 3: On-going Development of New Products

Each year, the Group launches new products into the optical networking industry. Next-generation product development, being the growth engine of the Group, has always been the focus of our R&D investment. In 2011, there were a total of 319 new products that the Group launched into the adjacent market.

Apart from generating growth in its existing markets, the Group also aims to capture growth opportunities in new markets. To this end, the Group had already started its R&D of non-telecommunication products such as fiber laser products and industrial automation products, which formed new product categories of the Group. This strategic move will allow the Group to expand into new business sectors that could become new sources of income for the Group in the future.

PROSPECTS FOR FUTURE GROWTH

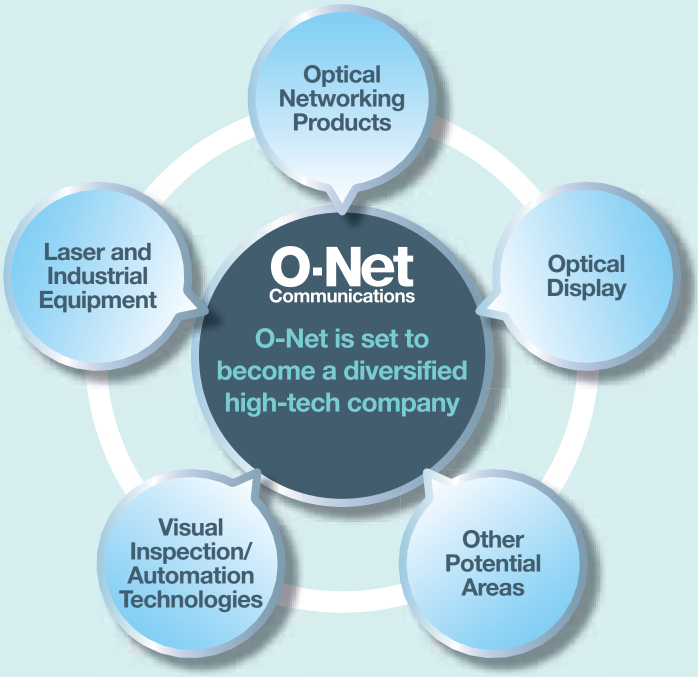
With our vision firmly set on generating strong returns for the Group and the Company's stakeholders, preparations have been underway for the opening of a new manufacturing plant located in Pishan District, Shenzhen City, China by 2012. After the grand opening of the new manufacturing plant, the Group plans to implement its strategic plan for leveraging its R&D function to generate growth in its core businesses. At the new manufacturing plant, there will be a new R&D Centre that features cutting-edge optical technology, new, state-of-the-art R&D equipment and a brand new R&D laboratory for conducting research activities and strengthening the product innovation capacity. Another key advantage the Group will gain from the new manufacturing plant is improved operating efficiency which will kick in after the new, state-of-the-art, automation manufacturing equipment is up and running. Adopting a higher level of automation in the new manufacturing process also benefits the Group in terms of reduced labor costs as some of the traditional production staff can be replaced, and more importantly, the higher level of automation will lessen our reliance on the supply of skilled operators over the long-term.

On the telecommunication business front, we are fully committed to growing our existing core businesses. As part of our overall growth strategy, we plan to further enlarge our customer base, leverage our R&D by innovating and bringing new, high margin products to the market, as well as continuously explore new areas to apply our core technology platforms. The Group has set up a solid technology and product roadmap for the next three years to meet the growing demand of customers for future telecommunication networks. In the future, the Group will continue to innovate and manufacture high margin products for generating growth. With these key initiatives in place, and with the Group's competitive strengths of a solid track record, strong customer base and vertical integration advantages, the Group is well-positioned for future growth.

The above image represents an architectural drawing of O-Net's new manufacturing and R&D facilities located in Pishan District, Shenzhen City, China which is planned for a grand opening in 2012.

5-Year Long Term Development Plan

O-Net plans to diversify into new product categories for capturing new market opportunities



Moving forward, the Group plans to be a well-diversified high-technology leader in the global optical marketplace. To develop its business in this direction, in addition to developing the current businesses, the Group will continue to diversify into new, promising adjacent markets by leveraging its existing technology platforms. To this end, the Group had already made progress in the fiber laser market by developing fiber laser products for industrial machineries. With respect to business diversification, aside from our entry into the fiber laser market, the Group had also conducted in-depth marketing research on various new market opportunities such as industrial automation and visual inspection technologies for furthering business diversification in aim of achieving groundbreaking growth for O-Net. With the vast amount of intellectual properties and know-how that the Group has accumulated in the optical, mechanical, electronic and software areas, covering not just telecommunication, but many other applications, the Group plans to fully leverage such expertise for expanding cautiously and consistently to generate solid growth in the future.

GROUP'S LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Company's issued share capital was HKD8.0 million divided into 799,987,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,369.9 million (31 December 2010: HKD1,249.3 million). The Group had current assets HKD1,295.6 million and current liabilities of HKD199.8 million and the current ratio was 6.5 times as at 31 December 2011 (31 December 2010: 7.7 times). The Group's net debt-to-equity ratio (calculated as total borrowing net of cash equivalents over shareholders' equity) and gearing ratio (calculated as total borrowings over shareholders' equity) was not applicable as at 31 December 2011 and 2010 since the Group did not have any borrowing.

As of 31 December 2011, the Group had cash and cash equivalents of approximately HKD768.6 million (31 December 2010: HKD507.8 million). The significant increase was due to the proceeds transferred from term deposits which were expired during the year. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

During the year ended 31 December 2011, the Company repurchased and cancelled its own shares at a total consideration of HKD73.7 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 31 December 2011, HKD28.3 million bank deposits was pledged as guarantee for payables due to contractor and suppliers for the construction of the new plants in Shenzhen. The Group has also pledged bank deposits of HKD37.9 million as guarantee for bills payables due to raw material suppliers.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

During the year ended 31 December 2011, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2011, the Group had contractual capital commitments of approximately HKD68.9 million. As of 31 December 2011, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

CAPITAL EXPENDITURE

During the year ended 31 December 2011, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD174.7 million (31 December 2010: HKD53.6 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The Group's costs and revenues are mainly in US dollar and RMB. The Group faces foreign exchange and conversion risks since costs denominated in RMB exceed the sales denominated in RMB. Fluctuations in the exchange rate between the RMB and the US dollar may adversely affect our business, financial condition and results of operations.

Given that the management is in the opinion that the foreign exchange and conversion risks is not significant, the Group currently does not have a foreign currency hedging policy. However, the management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The reporting currency of the Group is Hong Kong dollar, 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. The Group maintained certain cash denominated in Hong Kong dollars for paying dividends, if declared.

EMPLOYEE BENEFITS

As at 31 December 2011, the Group had a total of 1,970 employees (31 December 2010: 2,088). The Group's staff costs (including Directors' fees) amounted to HKD177.6 million (31 December 2010: HKD117.7 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice. The Group has provided its employees medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

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.

A share option scheme, which was adopted before the IPO (the "Pre-IPO Share Option Scheme"), and another share option scheme, which was adopted by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"), are both equity-settled, share-based compensation schemes, under which the entity receives the services from eligible participants as consideration for equity instruments (options). Eligible participants include any Director, employee, consultant, professional, customer, supplier, agent, partner, adviser or contractor to the Company, or a company in which the Company holds an interest or a subsidiary of such company.

Under the Pre-IPO Share Option Scheme, the shares authorized for the issuance of options are the shares of a shareholder of the Company. Under the Post-IPO Share Option Scheme, the shares authorized for issuance of options are the shares of the Company.

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. During the year ended 31 December 2011, options in aggregate of 20,868,000 were granted to 2 Directors and 316 employees of the Group (31 December 2010: options in aggregate of 30,648,000 were granted to 5 Directors and 315 employees of the Group). The Directors believe that the compensation packages offered by the Group to staff members are competitive in comparison with market standards and practices.

FINAL DIVIDEND

The Board had resolved to recommend to the shareholders of the Company at the forthcoming Annual General Meeting of the Company to be held on Tuesday, 8 May 2012 ("2012 AGM") a final dividend of HKD0.03 (2010: Nil) per share to be paid on Tuesday, 22 May 2012 to those shareholders whose names appear on the register of members of the Company on Monday, 14 May 2012. The final dividend will amount to approximately HKD24,000,000 (2010: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2011.

FUTURE PLANS FOR MATERIAL INVESTMENTS/CAPITAL ASSETS AND SOURCE OF FUND

As at 31 December 2011, the Group maintained sufficient funds for the capital investment and operations in the coming year.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

There has been no material event since the end of the financial period.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Na Qinglin

Mr. Na, aged 45, is the Co-Chairman and Chief Executive Officer of the Company. Mr. Na joined the Company as the Chief Executive Officer in January 2002 and was subsequently appointed as the Co-Chairman of the Company. He was also appointed as an executive Director of the Company on 12 November 2009. He is a member of each of the remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee") of the Company. Mr. Na is also a director of each of O-Net Communications (Shenzhen) Limited, O-Net Communications (Hong Kong) Limited and O-Net Communications Holdings Limited, all of which are subsidiaries of the Company. He is responsible for the Company's overall corporate strategy, management team development and daily operations.

Prior to joining the Company, Mr. Na co-founded and became the co-managing partner of Mandarin Venture Partners Limited in 2000. Previous to that, Mr. Na worked at the Hong Kong office of Salomon Smith Barney between 1997 and 2000. He also worked at the New York office of Salomon Brothers from 1995 to 1997. During his tenure at Salomon Brothers Inc., Mr. Na specialized in corporate finance for the Asia Pacific region. Mr. Na did not hold any directorship in other listed public companies in the past three years.

Mr. Na holds a master's degree in Business Administration from Vanderbilt University and a bachelor's degree in International Economics from Peking University.

Mr. Xue Yahong

Mr. Xue, aged 52, is the Vice President of Operations of the Company. He joined the operations team of the Company in March 2001. On 30 November 2009, he was appointed as an executive Director of the Company. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. Since Mr. Xue took the position as the Vice President of Operations, he is responsible for the overall supervision of the production, engineering, factory facilities and logistics of the Company and its subsidiaries (the "Group"). During the past ten years, he has participated in the development and production of the products of the Company, and has assisted in the transformation of our manufacturing facilities from a manual manufacturing system to a semi-automated system managed by information technology capable of higher production capacity.

Prior to joining the Company, Mr. Xue worked at Shenzhen Kaifa Technology Co., Limited (深圳長城開發科技股份有限公司) ("Shenzhen Kaifa") (Stock Code: 000021), a company listed on the Shenzhen Stock Exchange, from 1990 to 2000 where he gained experience in operations, logistics, customs, project management and customer service. Mr. Xue joined Shenzhen Kaifa in 1990 as an engineer and was later promoted as a vice general manager of the hard disk drive division in 1995. Prior to working at Shenzhen Kaifa, Mr. Xue was a tutor at Southeast University. Mr. Xue did not hold any directorship in other listed public companies in the past three years.

Mr. Xue holds a master's degree in Business Administration with a focus on Finance from the University of Lincoln (United Kingdom), and master's degree in Engineering from Harbin Institute of Technology.

NON-EXECUTIVE DIRECTORS

Mr. Tam Man Chi

Mr. Tam, aged 64, is the Co-Chairman and a non-executive Director of the Company. He was appointed as Director of the Company on 30 November 2009. He is a member of each of the Remuneration Committee and Nomination Committee. Mr. Tam is also a director of each of O-Net Communications Holdings Limited, O-Net Communications (Hong Kong) Limited and O-Net Communications (Shenzhen) Limited, all of which are subsidiaries of the Company. As a non-executive Director of the Company, Mr. Tam is not involved in the day-to-day operations of the Group. He 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 is currently the chairman of Shenzhen Kaifa. He started working for Shenzhen Kaifa as a director in July 1985 and he was re-designated as the chairman of the Shenzhen Kaifa in January 2008. In terms of Mr. Tam's other current positions, he 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 October 2009, each of which is listed on The Stock Exchange of Hong Kong Limited ("SEHK"). Mr. Tam has been a director of China Great Wall Computer Shenzhen Company Limited (中國長城計算機深圳股份有限公司), a company listed on the Shenzhen Stock Exchange, since 1999. Save as disclosed above, Mr. Tam did not hold any directorship in other listed public companies in the past three years.

Mr. Tam was awarded the "Shenzhen Honor Citizen" in 1994, the "National Friendship Award" in 2005, the "Title of Excellent Worker of Guangdong Province" and the "Leadership Award for Businessmen in Shenzhen" in 2006.

Mr. Chen Zhujiang

Mr. Chen, aged 45, is a non-executive Director of the Company. He was appointed as a Director of the Company on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. As a non-executive Director of the Company, he is not involved in the day-to-day operations of the Group. He is engaged in providing industry-related information and advice to the Group. Mr. Chen is a qualified engineer and economic administrator.

Mr. Chen is currently the chairman of Kaifa-O&M Components Co., Ltd. and the chairman of Shenzhen Kaifa Micro-Electronics Co., Ltd. He has held these positions since April 2005. He is also the chairman of Suzhou Kaifa Technology Co., Ltd., and has been in such a capacity since July 2005. With regards to Mr. Chen's past positions, he had previously served Shenzhen Huaming Computer Co., Ltd. (深圳華明計算機有限公司) as a director and general manager. He had also served China Great Wall Computer Shenzhen Company Limited (Stock Code: 000066), a company listed on the Shenzhen Stock Exchange, as its vice-chief of office. He is the vice-president of the Shenzhen Entrepreneur Association and Shenzhen Computer Industry Association as well as the standing director of the Shenzhen Electronic Chamber of Commerce. Save as disclosed above, Mr. Chen did not hold any directorship in other listed public companies in the past three years.

Mr. Chen holds a master's degree from the Business School of Jilin University and a bachelor's degree in Engineering from Tianjin University.

Mr. Huang Bin

Mr. Huang, aged 51, is a non-executive Director of the Company. He was appointed as a Director on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. As a non-executive Director of the Company, he is not involved in the day-to-day operations of the Group. He is engaged in providing financial and investment advice to the Group.

Mr. Huang began his financial services career at Citibank in 1990 where he served as the assistant vice president and chief representative of the bank's Beijing Office. In that position, he was responsible for China's client coverage. Later on, in 1993, he joined Lehman Brothers as an associate and started the firm's Beijing Office. In 1995, he joined Salomon Brothers Asia Pacific as vice president, and was a director of Salomon Smith Barney engaged in corporate finance for the China market until he left the firm in 2000. He joined Mandarin Venture Partners Limited in 2000. Since 2000, he has been responsible for investment project origination at Mandarin Venture Partners Limited. Mr. Huang was an executive director of Fushan International Energy Group Limited (Stock Code: 639) from November 2008 to March 2009, and an executive director of Theme International Holdings Limited (Stock Code: 990) from December 2009 to April 2010, each of which is listed on the SEHK. Save as disclosed above, Mr. Huang did not hold any directorship in other listed public companies in the past three years.

Mr. Huang holds a bachelor's degree in Economics from Harvard University.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Bai Xiaoshu

Mr. Bai, aged 51, is an independent non-executive Director of the Company. He was appointed as a Director of the Company on 9 April 2010. He is also a member of each of the audit committee of the Company ("Audit Committee"), Remuneration Committee and Nomination Committee.

Mr. Bai was the Chief Financial Officer ("CFO") of ReneSola Ltd., a company listed on the New York Stock Exchange, from May 2006 to 31 March 2010. He had been in his new position of chief strategy officer at ReneSola Ltd. since 1 April 2010. Previous to that, Mr. Bai was the CFO of FEnet Co. Ltd. from March 2003 to April 2006. In that role, Mr. Bai was responsible for the corporate finance, financial, accounting management and internal audit affairs of the company. From 2001 to 2002, he was the vice president of Tractebel Asia Co Ltd. ("Tractebel"). Tractebel was subsequently renamed 'GDF Suez Tractebel', a Belgium energy company based in Thailand. From 1997 to 2001, Mr. Bai worked as a finance director at Ogden Energy Asia Pacific Co. Ltd. ("Ogden"). Ogden was subsequently renamed 'Covanta Holding Corporation', a US energy company based in Hong Kong. At Tractebel and Ogden, Mr. Bai successfully completed a number of cross border mergers and acquisitions and project finance transactions. He was an associate director of Deutsche Bank, and worked at the bank's Hong Kong office from 1995 to 1997 specializing in project and export finance. Mr. Bai did not hold any directorship in other listed public companies in the past three years.

Mr. Bai holds an MBA degree from the International Institute for Management Development (IMD), Switzerland (formerly known as the 'International Management Institute, Geneva'). He also holds a bachelor's degree in Economics specializing in Industrial Corporate Management from Southwestern Finance & Economics University (formerly known as 'Sichuan Finance & Economics College'), China. Mr. Bai has completed the Canadian Securities Course of the Canadian Securities Institute.

Mr. Deng Xinping

Mr. Deng, aged 45, is an independent non-executive Director of the Company. He was appointed as a Director of the Company on 9 April 2010. He is also a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. Deng has been a vice president of Longtop Financials Technologies since 1 July 2007. He has been in charge of the company's 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 Guangzhou FENet System Networks Co., Ltd (廣州市菲奈特系統網絡有限公司), a provider of software electronic products, computer systems and related technology. From 2001 to July 2007, Mr. Deng served as the Chief Executive Officer of Guangzhou FENet Software Co., Ltd. (廣州菲奈特軟件有限公司). Guangzhou FENet Software Co., Ltd. and Guangzhou FENet System Networks Co., Ltd. are also the wholly-owned subsidiaries of FEnet Co. Ltd.

Mr. Deng holds a Master of Science degree from South China University of Technology. He also graduated from Hubei University where he majored in Mathematics. Mr. Deng did not hold any directorship in other listed public companies in the past three years.

Mr. Ong Chor Wei

Mr. Ong, aged 42, is an independent non-executive Director of the Company. He was appointed as a Director of the Company on 9 April 2010. Mr. Ong has over 21 years of experience in finance and accounting. Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited (previously known as 'K Plas Holdings Limited') and a non-executive director of Joyas International Holdings Limited and Jets Technics International Holdings Limited, all of which are companies listed on the Singapore Exchange Securities Trading Limited. Mr. Ong is also currently a non-executive director of Man Wah Holdings Limited, which is a company listed on the SEHK. Previously, he served as a non-executive director of FM Holdings Limited, a company which was listed on the Singapore Exchange Securities Trading Limited, from July 2009 to August 2009. Save as disclosed above, Mr. Ong did not hold any directorship in other listed public companies in the past three years.

Mr. Ong holds a Master of Business Administration degree that was jointly awarded to him by the University of Wales and the University of Manchester. Mr. Ong also holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London. 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.

SENIOR MANAGEMENT

Dr. Hua Yimin, Ben

Dr. Hua, aged 50, is the Vice-President of Research and Development of the Group. He joined the Group on 10 October 2011. He is our new Head of Research and Development who is in charge of the research and development functions of the Group. He is also responsible for overseeing new product development activities in the telecommunications and laser product areas of the Group.

Dr. Hua has more than 18 years of solid experience in telecommunications, research and development, as well as product marketing which he gained from working in the telecommunications industry. His technology experience is also derived from his previous jobs at various technology corporations. Prior to joining O-Net Communications, Dr. Hua held senior positions at various companies in the USA, where he headed up the development and marketing of various fiber optical components and optical networking sub-system products.

Dr. Hua holds a PhD in Physics from Shanghai Jiao Tong University. He had also conducted a one-year research at the University of California, Irvine, USA and a one – year post-doctoral research at the Telecommunication Research Labs of the University of Alberta, Canada.

Biographical Details of Directors and Senior Management

Dr. Yu Aihua

Dr. Yu, aged 54, is the Vice President of Research and Development – Modules and Subsystems of the Company. He joined the Company on 16 April 2004. He is responsible for overseeing the modules and subsystems division within our research and development department. In this position, Dr. Yu oversees 37 employees. Dr. Yu has been involved in the optical communications industry since 1982 when he studied at the then Nanjing Institute of Technology, which is currently known as Southeast University, specializing in electrical engineering.

Mr. Yu brings a wealth of experience to O-Net. Previous to joining the Company, he was the Chief Research Officer in the Department of Electronic Systems Engineering of Essex University. He has also gained international work experience having worked in various information technology companies including Lucent Technologies in the United Kingdom and Innvonance Networks in Canada.

Mr. Yu holds a Master of Science degree, majoring in Electrical Engineering, from Nanjing Institute of Technology. Mr. Yu also obtained his doctorate degree in Electronic Systems Engineering from Essex University, United Kingdom.

Ms. Xie Hong

Ms. Xie, aged 49, is our Vice President of Research and Development – Components of the Company. She manages 25 employees in the optical components division. In her current role, Ms. Xie oversees the development of new products, improvement of existing products and the resolution of technical issues.

Ms. Xie has extensive experience in research and development as she has been in the fiber optic research field since 1983. Previously, she was our Head of Research and Development having held the position from 3 January 2001 to 9 October 2011. Prior to that, she was a faculty member at Zhejiang University, teaching optical engineering courses. She joined Shenzhen Kaifa Technology Co., Limited's fiber optic department in August 1999, after returning from a visiting scholar trip at the University of Illinois.

Ms. Xie holds both a master's degree and a bachelor's degree from Zhejiang University.

Mr. Tan Boon Thong

Ms. Tan, aged 43, is our Vice President of Sales and Marketing. He has been leading the Company's international sales division since 1 February 2002, and the global sales and marketing division since 18 January 2004. Previous to joining the Company, Mr. Tan worked in a project engineering capacity at Shenzhen Kaifa Technology Co., Limited. Prior to that, Mr. Tan worked as a technical staff at Thomson Electric (Malaysia) Sdn. Bhd. and Seagate Technologies (Malaysia) Sdn. Bhd.

Mr. Tan holds a bachelor's degree in Physics from the National University of Malaysia.

Mr. Kung Sze Wai

Mr. Kung, aged 39, is the Vice President of Finance and Company Secretary of the Company. He is responsible for the financial, accounting and company secretarial functions of the Group. He has over 14 years of experience in finance, accounting, auditing, taxation and company secretarial services. Prior to joining our Company, Mr. Kung held various other positions including the executive director, chief financial officer and company secretary positions, in addition to being an authorized representative for companies that are listed with the SEHK.

Mr. Kung holds a master's degree in Corporate Finance from Hong Kong Polytechnic University and a bachelor's degree in Business from Monash University, Australia. He is an associate member of the Association of International Accounts and the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

O-Net Communications (Group) Limited (the "Company") is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules").

During the year ended 31 December 2011, the Company was in compliance with code provisions set out in the CG Code except for the deviations from code provision A.2.1 which is explained below.

Code provision A.2.1 of the CG Code provides that the responsibilities between the chairman ("Chairman") and chief executive officer ("CEO") should be divided. The Company has a CEO, Mr. Na Qinglin and he currently also performs as a Co-Chairman. The Board believes that vesting the roles of both Co-Chairman and CEO in the same person has the benefit of ensuring consistent leadership within the Company and its subsidiaries (the "Group") and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 December 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2011.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters.

The non-executive Directors and independent non-executive Directors, who combine to offer diverse industry expertise, serve the important function of providing relevant advise so as to assist the management on formulation of business strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

Composition

The Board currently consists of two executive Directors, three non-executive Directors and three independent non-executive Directors:

Executive Directors
Mr. Na Qinglin *(Co-Chairman and Chief Executive Officer)*
Mr. Xue Yahong

Non-Executive Directors
Mr. Tam Man Chi *(Co-Chairman)*
Mr. Chen Zhujiang
Mr. Huang Bin

Independent Non-Executive Directors
Mr. Bai Xiaoshu
Mr. Deng Xinping
Mr. Ong Chor Wei

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical details of the Board are set out on pages 19 to 22 under the section headed "Biographical Details of Directors and Senior Management".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Group Co-Chairman and Chief Executive Officer

The Group consists of two Co-Chairmen of the Board, namely Mr. Na Qinglin and Mr. Tam Man Chi. Mr. Na Qinglin was also appointed as the Chief Executive Officer of the Company. The Board believes that vesting the roles of Co-Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

The roles of the Co-Chairman and Chief Executive Officer of the Group are as follows:

Co-Chairman	responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures.
Chief Executive Officer	responsible for managing the Group's Director business, including the implementation of major strategies and initiatives adopted by the Board with the support from other executive Directors, and within those authorities delegated by the Board.

Non-Executive Directors

The three non-executive Directors and the three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of electronic, finance and accounting. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

The non-executive Directors and the independent non-executive Directors are appointed for a term of three years and are subject to retirement by rotation in accordance with the Articles of Association (the "Articles") of the Company.

Board Meetings

The Company was incorporated in the Cayman Islands on 12 November 2009 and registered as an oversea company under Part XI of the Companies Ordinance on 8 April 2010. During the period under review, the Board held 4 meetings:

Name of Directors	Number of attendance
Mr. Na Qingling	4/4
Mr. Xue Yahong	4/4
Mr. Tam Man Chi	4/4
Mr. Chen Zhujiang	4/4
Mr. Huang Bin	4/4
Mr. Bai Xiaoshu	4/4
Mr. Deng Xingpin	4/4
Mr. Ong Chor Wei	4/4

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board members is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Board Committees

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the CG Code of the Listing Rules:

Audit Committee
Remuneration Committee
Nomination Committee

Each committee has authority to engage outside consultants or experts as it considers necessary to discharge the committee's responsibilities. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence and effectiveness, the Audit, Remuneration, and Nomination Committees have been structured to include a majority of independent non-executive Directors. Details and reports of the committees are set out below.

Audit Committee

All members of the Audit Committee are independent non-executive Directors and are responsible for, among others, the integrity of the financial statements of the Group, reviewing the effectiveness of the Group's internal controls and risk management systems, reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system and oversight of the relationship with external auditor.

The Audit Committee currently comprises three members as follows:

Mr. Ong Chor Wei *(Chairman)*
Mr. Bai Xiaoshu
Mr. Deng Xinping

Terms of Reference

The Audit Committee was established to review the Group's financial controls, internal controls and risk management systems and make relevant recommendations to the Board. The Audit Committee has been chaired by an independent non-executive Director and all of the Audit Committee members are independent non-executive Directors. The chairman of the Audit Committee possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee also discuss with management the internal control system to ensure an effective internal control system is in place.

The Audit Committee also responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, to review the external auditor's independence, the Group's financial and accounting policies and practices.

The Audit Committee also review the Company's annual report and interim report before submission to the Board and to focus particularly on:

(i) any changes in accounting policies and practices;
(ii) major judgmental areas;
(iii) significant adjustments resulting from audit;
(iv) the going concern assumptions and any qualifications;
(v) compliance with accounting standards; and
(vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.

The Audit Committee also ensures proper arrangements are in place by which employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, in confidence and without fear of recrimination for fair and independent investigation of such matters and for appropriate follow-up action. Employees can report these concerns to either senior management or the Audit Committee. Any shareholders or stakeholders can also report similar concerns by writing in confidence to the Company's business address in Shenzhen, China.

During the year ended 31 December 2011, the Audit Committee held 2 meetings:–

Name of Directors	Number of attendance
Mr. Ong Chor Wei	2/2
Mr. Bai Xiaoshu	2/2
Mr. Deng Xingping	2/2

Summary of Work Done

During the year ended 31 December 2011, the Audit Committee has reviewed the Group's (i) annual report for the year ended 31 December 2010; (ii) interim report for the 6 months ended 30 June 2011; and (iii) external auditor's engagement letter with recommendation to the Board for approval; and (iv) re-appointment of external auditor.

Remuneration Committee

The Remuneration Committee is chaired by a non-executive Director. The Remuneration Committee is responsible for, among others, the determination, subject to the agreement with the Board, the framework or policy for the remuneration of the Chairman, Chief Executive Officer, executive Directors and such other members of the executive management as it is designated to consider. The Remuneration Committee shall also determine the total individual remuneration package of each executive Director and other senior executives including bonuses, incentive payments and share options or other share awards within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive Officer as appropriate.

The Remuneration Committee currently comprises five members as follows:

Mr. Tam Man Chi *(Chairman)*
Mr. Ong Chor Wei
Mr. Bai Xiaoshu
Mr. Deng Xinping
Mr. Na Qinglin

During the year ended 31 December 2011, the Remuneration Committee held 1 meeting:–

Name of Directors	Number of attendance
Mr. Tam Man Chi	1/1
Mr. Bai Xiaoshu	1/1
Mr. Deng Xingping	1/1
Mr. Ong Chor Wei	1/1
Mr. Na Qinglin	1/1

Nomination Committee

The Nomination Committee is chaired by the Group Chief Executive Officer. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of Board composition, assessment of the independence of independent non-executive Directors and the management of Board succession.

The Nomination Committee currently comprises five members as follows:

Mr. Na Qinglin *(Chairman)*
Mr. Ong Chor Wei
Mr. Bai Xiaoshu
Mr. Deng Xinping
Mr. Tam Man Chi

During the year ended 31 December 2011, the Nomination Committee held 1 meeting:–

Name of Directors	Number of attendance
Mr. Na Qinglin	1/1
Mr. Bai Xiaoshu	1/1
Mr. Deng Xingping	1/1
Mr. Ong Chor Wei	1/1
Mr. Tam Man Chi	1/1

Internal Control

The Board is responsible for maintaining a sound and effective system of internal controls and for reviewing its effectiveness. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis.

During the year ended 31 December 2011, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. It was concluded that the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication.

There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

External Audit

The Company's external auditor, PricewaterhouseCoopers, performs independent statutory audit on the Group's consolidated financial statements. The Audit Committee also has unrestricted access to external auditor as necessary. The Company's external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control system which might come to its notice during the course of audit.

Prior to the commencement of the audit of the Company, the Audit Committee should be received written confirmation from the external auditor on its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Audit Committee have been satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers, and the Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers as the Company's external auditor.

Auditor's Remuneration

The Company paid/payable a total remuneration of HKD2,298,000 to PricewaterhouseCoopers for their annual audit services of 2011. There is no non-audit services rendered by the auditor of the Company during the year.

Directors' Responsibilities for the Financial Statements

The Directors acknowledge its responsibility to prepare the Company's account for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2011, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Shareholder Rights

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholder at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all resolutions set out in the notice of the forthcoming annual general meeting of the Company will be voted by poll.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The annual report together with the relevant circular are distributed to all the shareholders at least 20 clear business days before the annual general meeting.

Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:–

– Delivery of annual and interim results and reports to all shareholders;

– Publication of announcements on the annual and interim results on the website of the SEHK and the Company, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

– The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Directors' Report

The board (the "Board") of directors (the "Directors") of O-Net Communications (Group) Limited (the "Company") is pleased to submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

REORGANISATION AND INITIAL PUBLIC OFFERING ("IPO")

The Company was incorporated in the Cayman Islands as exempted company with limited liability on 12 November 2009. Pursuant to a reorganization to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK"), the Company became the holding company of the companies now comprising the Group.

USE OF PROCEEDS FROM THE COMPANY'S IPO

The net proceed received by the Company from the listing of the Company's shares on the SEHK on 29 April 2010 amounted to approximately HKD512.8 million. As at 31 December 2011, approximately HKD297.9 million of the proceeds so raised was used, and the proceeds of approximately HKD214.9 million remain unused.

Details of the used proceeds of approximately HKD297.9 million are as follows:

	Net IPO proceeds (HKD million)		
	Available	Utilized	Unutilized
New production facilities	200	122.1	77.9
Production line and research & development expansion	40	40	–
Repayment to Shenzhen Kaifa for rent and operating expenses paid on behalf of the Group	34	34	–
Working Capital and Others including M&A	238.8	101.8	137
Total	512.8	297.9	214.9

Most of the net proceeds from the IPO were deposited into banks in PRC and Hong Kong. The Group have and will continue to utilize the net proceeds balance in the same manner and proportion as set out in the Prospectus.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem used in high-speed telecommunications and data communications network systems.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 42 to 101.

The Board had resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 8 May 2012 ("2012 AGM") a final dividend of HKD0.03 (2010: Nil) per share to be paid on Tuesday, 22 May 2012 to those shareholders whose names appear on the register of members of the Company on Monday, 14 May 2012.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2012 AGM, the register of members of the Company will be closed from Friday, 4 May 2012 to Tuesday, 8 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2012 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 3 May 2012.

For determining the entitlement to the final dividend, the register of members of the Company will be closed on Monday, 14 May 2012, no transfer of shares will be registered on that date. In order to qualify for the proposed final dividend, all transfers of shares accompanies by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited for registration not later than 4:30 p.m. on Friday, 11 May 2012.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2011 are set out in note 14 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association ("Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2011, the Company repurchased and cancelled 33,108,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.71 to HKD2.80 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share		Aggregate purchase consideration
		Highest	Lowest	(excluding expenses)
		HKD	HKD	HKD
June 2011	6,970,000	2.75	2.40	18,019,068.10
July 2011	7,805,000	2.80	2.60	21,295,498.50
September 2011	18,333,000	2.00	1.71	34,426,424.90
	33,108,000			73,740,991.50

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's reserves available for distribution to the shareholders amounted to approximately HKD999.9 million.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:–

Executive Directors
Mr. Na Qinglin *(Co-Chairman and Chief Executive Officer)*
Mr. Xue Yahong

Non-Executive Directors
Mr. Tam Man Chi *(Co-Chairman)*
Mr. Chen Zhujiang
Mr. Huang Bin

Independent Non-Executive Directors
Mr. Bai Xiaoshu
Mr. Deng Xinping
Mr. Ong Chor Wei

In accordance with Article 84(1) of the Articles, Mr. Na Qinglin, Mr. Chen Zhujiang and Mr. Ong Chor Wei will retire by rotation and, being eligible, offered themselves for re-election at the 2012 AGM.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

SHARE OPTION SCHEME

Details of the Pre-IPO Share Option Scheme are set out in the Prospectus and Note 30 to the financial statements.

SHARE OPTION SCHEME ADOPTED AFTER THE IPO ("POST-IPO SHARE OPTION SCHEME")

The Company adopted the Post-IPO Share Option Scheme on 9 April 2010. Details of the movements in the Company's share options during the year ended 31 December 2011 under the Post-IPO Share Option Scheme are set out below:

Name of category	Date of grant of share options	Exercise period	Exercise price of share options (HKD)	Outstanding at 1 January 2011	Granted during the year	Lapsed during the year	Outstanding at 31 December 2011
Directors							
Mr. Na Qinglin	2 June 2010	2 June 2011 to 8 April 2020 (Note 1)	3.128	6,000,000	–	–	6,000,000
	13 January 2011	13 July 2011 to 8 April 2020 (Note 4)	5.374	–	800,000	–	800,000
Mr. Xue Yahong	2 June 2010	2 June 2013 to 8 April 2020 (Note 2)	3.128	500,000	–	–	500,000
	13 January 2011	13 July 2011 to 8 April 2020 (Note 4)	5.374	–	500,000	–	500,000
Mr. Bai Xiaoshu	2 June 2010	2 June 2011 to 8 April 2020 (Note 1)	3.128	500,000	–	–	500,000
Mr. Deng Xinping	2 June 2010	2 June 2011 to 8 April 2020 (Note 1)	3.128	500,000	–	–	500,000
Mr. Ong Chor Wei	2 June 2010	2 June 2011 to 8 April 2020 (Note 1)	3.128	500,000	–	–	500,000
Sub-total				8,000,000	1,300,000	–	9,300,000

Name of category	Date of grant of share options	Exercise period	Exercise price of share options (HKD)	Outstanding at 1 January 2011	Granted during the year	Lapsed during the year	Outstanding at 31 December 2011
Other Employees	2 June 2010	2 June 2011 to 8 April 2020 (Note 1)	3.128	15,780,000	–	(1,992,000)	13,788,000
		2 June 2012 to 8 April 2020 (Note 2)		1,390,000	–	–	1,390,000
		2 June 2013 to 8 April 2020 (Note 3)		4,440,000	–	(50,000)	4,390,000
	13 January 2011	13 July 2011 to 8 April 2020 (Note 4)	5.374	–	15,568,000	(1,886,000)	13,682,000
	10 October 2011	10 October 2012 to 8 April 2020 (Note 5)	1.870	–	4,000,000	–	4,000,000
Total				29,610,000	20,868,000	(3,928,000)	46,550,000

Notes:

1. The vesting period commences at the end of the anniversary of the date of grant, i.e. 2 June 2011, equally over a period of 5 years.
2. The vesting period commences at the end of the second anniversary of the date of grant, i.e. 2 June 2012, equally over a period of 4 years.
3. The vesting period commences at the end of the third anniversary of the date of grant, i.e. 2 June 2013, equally over a period of 3 years.
4. The vesting period commences on 13 July 2011, equally over a period of 3 years.
5. The vesting period commences on 10 October 2012, equally over a period of 5 years.

A total of 21,610,000 share options granted to the employees of the Company were remained outstanding on 1 January 2011. Apart from the above, options totaling 19,568,000 shares under the Post-IPO Share Option Scheme were granted to 316 employees of the Group on 13 January 2011 and 10 October 2011, and 3,928,000 shares were lapsed during the year. Save as aforesaid, no further options were granted during the year ended 31 December 2011.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors has entered into a service agreement dated 9 April 2010 with the Company for an initial fixed period of three years commencing from 22 April 2010 until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

Each of the independent non-executive Directors has signed a letter of appointment dated 9 April 2010 with the Company for an initial fixed term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors who are proposed for re-election at the 2012 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2011.

DIRECTORS' INTERESTS IN SHARES

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporation

As at 31 December 2011, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

Interests or Short Positions in Shares, Underlying Shares and Debentures of the Company

Name of Director	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of a controlled corporation	Long position	250,003,463 (Note 1)	31.25%
	Beneficial owner	Long position	6,800,000 (Note 2)	0.85%
Mr. Xue Yahong	Beneficial owner	Long position	1,000,000 (Note 2)	0.13%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.17%
Mr. Bai Xiaoxhu	Beneficial owner	Long position	500,000 (Note 2)	0.06%
Mr. Deng Xinping	Beneficial owner	Long position	500,000 (Note 2)	0.06%
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000 (Note 2)	0.06%

Notes:

1. These 250,003,463 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 49.18% by Mandarin IT Fund I, which is managed by its investment manager, Mandarin VP (BVI) Limited, a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned approximately 75% by Mr. Na Qinglin, an executive Director, Co-Chairman and Chief Executive Officer of the Company; therefore, Mr. Na Qinglin is deemed to be interested in these 250,003,463 shares held by O-Net Holdings (BVI) Limited under the SFO.

2. These shares are derived from the interest in share options granted by the Company pursuant to the Post-IPO Share Option Scheme, details of which are set out in the section headed "Share Option Schemes".

Interests and Short Positions of Substantial Shareholders/Other Persons Recorded in the Register Kept Under Section 336 of the SFO

As at 31 December 2011, so far as is known to the Directors and chief executives of the Company, the interest or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Kaifa Technology (H.K.) Limited	Beneficial owner	Long position	227,636,237	28.45%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	227,636,237 (Note 1)	28.45%
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	227,636,237 (Note 1)	28.45%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	250,003,463	31.25%
Mandarin IT Fund I	Interest of a controlled corporation	Long position	250,003,463 (Notes 2 & 3)	31.25%
HC Capital Limited	Interest of a controlled corporation	Long position	250,003,463 (Notes 2 & 3)	31.25%
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	250,003,463 (Notes 2 & 3)	31.25%
Mr. Yeh Meou-Tsen, Geoffery	Interest of a controlled corporation	Long position	250,003,463 (Notes 2 & 3)	31.25%
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	250,003,463 (Notes 2 & 4)	31.25%
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	250,003,463 (Notes 2 & 4)	31.25%
Mr. Na Qinglin	Interest of a controlled corporation	Long position	250,003,463 (Notes 2 & 4)	31.25%
	Beneficial owner	Long position	6,800,000 (Note 5)	0.85%

Notes:

1. These 227,636,237 shares are held through Kaifa Technology (H.K.) Limited, a company wholly-owned by Shenzhen Kaifa Technology Co., Ltd., which in turn is a subsidiary of Great Wall Technology Company Limited; therefore, each of Shenzhen Technology Co., Ltd. and Great Wall Technology Company Limited is deemed to be interested in 227,636,237 shares under the SFO.

2. These 250,003,463 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 49.18% by Mandarin IT Fund I.

3. Mandarin IT Fund I is owned as to 37.25% by HC Capital Limited, an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited with Mr. Yeh Meou-Tsen, Geoffery as its controlling shareholder; therefore, each of Mandarin IT Fund I, HC Capital Limited, Hsin Chong International Holdings Limited and Mr. Yeh Meou-Tsen, Geoffrey is deemed to be interested in 250,003,463 shares under the SFO.

4. Mandarin IT Fund I is managed by its investment manager, Mandarin VP (BVI) Limited, which is a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned approximately 75% by Mr. Na Qinglin, the Co-Chairman, Chief Executive Officer and an executive Director of the Company; therefore, each of Mandarin VP (BVI) Limited, Mandarin Venture Partners Limited and Mr. Na Qinglin is deemed to be interested in 250,003,463 shares held by O-Net Holdings (BVI) Limited under the SFO.

5. These 6,800,000 shares are derived from the interest in share options granted by the Company pursuant to the Post-IPO Share Option Scheme, details of which are set out in section headed "Share Option Scheme".

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2011.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchase from the five largest suppliers accounted for approximately 34.5% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 10.4% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 53.4% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 22.2% of the Group's total sales.

None of the Directors of the Company, their associates, nor any shareholder which to the best knowledge of the Directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in Note 29 to the Consolidated Financial Statements also constituted connected transactions under Chapter 14A of the Listing Rules which are required to be disclosed in this report.

During the year ended 31 December 2011, the Group sold goods to Butterfly Technology (Shenzhen) Ltd., Co. amounted to approximately HKD42,000 (2010 – Nil).

Since each of the percentage ratios (other than profits ratio) for the annual amount of the above transactions were less than 0.1%, the transactions are defined by the Listing Rules as "connected transactions" and are exempt from the reporting, announcement and independent shareholders' approval requirements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this report.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 9 April 2010 with written terms of reference in compliance with the CG Code, and currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei, Mr. Bai Xiaoshu and Mr. Deng Xinping. The Audit Committee is chaired by Mr. Ong Chor Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2011 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 23 to 29 of the 2011 Annual Report.

AUDITOR

A resolution will be submitted to the 2012 AGM for the re-appointment of PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
O-Net Communications (Group) Limited
Na Qinglin
Co-Chairman and Chief Executive Officer

Hong Kong, 13 March 2012

Independent Auditor's Report

pwc 羅兵咸永道

To the shareholders of O-NET Communications (Group) Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of O-NET Communications (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 101, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 March 2012

Consolidated Balance Sheet

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Note(s)	As at 31 December 2011 HKD'000	2010 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**29,541**	28,765
Property, plant and equipment	7	**240,091**	82,260
Intangible assets	8	**500**	710
Deferred income tax assets	18	**4,019**	2,911
		274,151	114,646
Current assets			
Inventories	10	**115,450**	114,577
Trade and other receivables	12	**294,523**	270,926
Pledged bank deposits	13	**66,253**	26,971
Term deposits with initial term of over three months	13	**50,700**	382,877
Cash and cash equivalents	13	**768,643**	507,812
		1,295,569	1,303,163
Total assets		**1,569,720**	1,417,809
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**8,000**	8,331
Reserves		**1,361,894**	1,241,011
Total equity		**1,369,894**	1,249,342

Consolidated Balance Sheet

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Note(s)	As at 31 December 2011 HKD'000	2010 HKD'000
LIABILITIES			
Current liabilities			
Trade and other payables	17	**175,545**	143,540
Current income tax liabilities		**24,281**	24,927
		199,826	168,467
Total liabilities		**199,826**	168,467
Total equity and liabilities		**1,569,720**	1,417,809
Net current assets		**1,095,743**	1,134,696
Total assets less current liabilities		**1,369,894**	1,249,342

The notes on pages 49 to 101 are an integral part of these consolidated financial statements.

The financial statements on pages 42 to 101 were approved by the Board of Directors on 13 March 2012 and were signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

Balance Sheet

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Note(s)	As at 31 December 2011 HKD'000	2010 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**470,440**	442,669
Current assets			
Trade and other receivables	12	**131,726**	76,992
Term deposits with initial term of over three months	13	**50,700**	195,000
Cash and cash equivalents	13	**406,026**	360,134
		588,452	632,126
Total assets		**1,058,892**	1,074,795
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**8,000**	8,331
Reserves		**1,039,286**	1,054,650
Total equity		**1,047,286**	1,062,981
LIABILITIES			
Current liabilities			
Trade and other payables	17	**11,606**	11,814
Total liabilities		**11,606**	11,814
Total equity and liabilities		**1,058,892**	1,074,795
Net current assets		**576,846**	620,312
Total assets less current liabilities		**1,047,286**	1,062,981

The notes on pages 49 to 101 are an integral part of these consolidated financial statements.

The financial statements on pages 42 to 101 were approved by the Board of Directors on 13 March 2012 and were signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

Consolidated Income Statement

(All amounts in Hong Kong dollar thousands unless otherwise stated)

		Year ended 31 December	
		2011	2010
	Note(s)	**HKD'000**	HKD'000
Revenue	19	**669,381**	660,577
Cost of sales	20	**(369,545)**	(322,761)
Gross profit		**299,836**	337,816
Other gains – net	19	**6,661**	1,125
Selling and marketing costs	20	**(35,275)**	(33,035)
Research and development expenses	20	**(50,854)**	(31,828)
Administrative expenses	20	**(90,241)**	(67,305)
Operating profit		**130,127**	206,773
Finance income	22	**24,244**	4,648
Finance costs	22	**(176)**	(7,692)
Finance income/(costs) – net	22	**24,068**	(3,044)
Profit before income tax		**154,195**	203,729
Income tax expenses	23	**(20,746)**	(22,120)
Profit for the year		**133,449**	181,609
Profit attributable to:			
Equity holders of the Company		**133,449**	181,609
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	26	**0.16**	0.25
– Diluted	26	**0.16**	0.25

The notes on pages 49 to 101 are an integral part of these consolidated financial statements.

		Year ended 31 December	
		2011	2010
	Note	**HKD**	HKD
Dividend	25	**24,000**	–

Consolidated Statement of Comprehensive Income

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Year ended 31 December	
	2011	2010
	HKD'000	HKD'000
Profit for the year	**133,449**	181,609
Other comprehensive income		
Currency translation differences	**33,351**	19,524
Total comprehensive income for the year	**166,800**	201,133
Total comprehensive income attributable to:		
Equity holders of the Company	**166,800**	201,133

The notes on pages 49 to 101 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Attributable to equity holders of the Company				
		Reserves			
	Share capital	Share premium	Other reserves (Note 15)	Retained earnings (Note 16)	Total equity
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Balance at 1 January 2010	–	210,674	(55,159)	32,866	188,381
Comprehensive income					
Profit for the year	–	–	–	181,609	181,609
Other comprehensive income					
Currency translation differences	–	–	19,524	–	19,524
Total other comprehensive income	–	–	19,524	–	19,524
Total comprehensive income	–	–	19,524	181,609	201,133
Share option scheme – value of services (Note 30)	–	–	11,587	–	11,587
Initial public offering of shares (Note 14)	7,731	552,781	–	–	560,512
Private placement of shares (Note 14)	600	329,400	–	–	330,000
Share issuance costs	–	(43,962)	–	–	(43,962)
Effects of change of functional currency (Note 2.5(c))	–	–	167	1,524	1,691
Balance at 31 December 2010	8,331	1,048,893	(23,881)	215,999	1,249,342
Balance at 1 January 2011	**8,331**	**1,048,893**	**(23,881)**	**215,999**	**1,249,342**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**133,449**	**133,449**
Other comprehensive income					
Currency translation differences	**–**	**–**	**33,351**	**–**	**33,351**
Total other comprehensive income	**–**	**–**	**33,351**	**–**	**33,351**
Total comprehensive income	**–**	**–**	**33,351**	**133,449**	**166,800**
Share option scheme – value of services (Note 30)	**–**	**–**	**27,864**	**–**	**27,864**
Repurchase and cancellation of shares	**(331)**	**(73,781)**	**331**	**(331)**	**(74,112)**
Balance at 31 December 2011	**8,000**	**975,112**	**37,665**	**349,117**	**1,369,894**

The notes on pages 49 to 101 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in Hong Kong dollar thousands unless otherwise stated)

		Year ended 31 December	
		2011	2010
	Note	**HKD'000**	HKD'000
Cash flows from operating activities			
Cash generated from operating activities	27	**150,065**	85,473
Interest paid		**(176)**	–
Income tax paid		**(24,097)**	(10,710)
Net cash from operating activities		**125,792**	74,763
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(160,255)**	(55,315)
Purchase of intangible assets		**–**	(398)
Interest received		**15,246**	697
Proceeds from disposal of property, plant and equipment		**24**	–
Repayments/(payments) of term deposits with initial term of over three months		**332,177**	(382,877)
Net cash from/(used in) investing activities		**187,192**	(437,893)
Cash flows from financing activities			
Proceeds from initial public offering of shares		**–**	560,512
Proceeds from private placement of shares		**–**	330,000
Payments of share issuance costs		**–**	(46,937)
Proceeds from borrowings		**38,557**	–
Repayments of borrowings		**(38,557)**	–
Payments for repurchase of shares		**(74,112)**	–
Repayment of amount due to a related party		**–**	(100)
Net cash (used in)/from financing activities		**(74,112)**	843,475
Net increase in cash and cash equivalents		**238,872**	480,345
Cash and cash equivalents at the beginning of the year		**507,812**	26,544
Exchange difference		**21,959**	923
Cash and cash equivalents at the end of the year		**768,643**	507,812

The notes on pages 49 to 101 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

(a) General Information

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 and has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1–1111, Cayman Islands.

The Company and its subsidiaries (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").

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 13 March 2012.

(b) Group Reorganization and Basis of Consolidation

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 ("Kaifa HK", altogether defined as the "Controlling Shareholders").

In preparation for the IPO, 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 engaging in the Listing Business at a consideration of HKD24,274,000;

(iii) On 12 November 2009, the Company was incorporated as a wholly owned subsidiary of O-NET Cayman with an authorized share capital of HKD390,000 divided into 39,000,000 shares of par value HKD0.01 each, and the initial one subscriber share of par value HKD0.01 issued and allotted was transferred to O-NET Cayman;

1 GENERAL INFORMATION *(Continued)*

(b) Group Reorganization and Basis of Consolidation *(Continued)*

(iv) On 22 February 2010, the Company issued an additional 9,999 shares of HKD0.01 each to O-NET Cayman and all the said 10,000 shares were credited as fully paid up by the Company in consideration of the transfer by O-NET Cayman of all its shareholding interests in O-NET BVI to the Company. After the transfer, O-NET BVI became a wholly-owned subsidiary of the Company and the Company became the holding company of the Group.

Under Hong Kong Financial Reporting Standards ("HKFRS") 3 (Revised) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 'Business combination' which became effective for the financial year beginning 1 January 2010, the Reorganization relating to the transfer of the Listing Business to the Company is not considered a business combination because the Company has not involved in any other businesses prior to the Reorganization and do not meet the definition of a business. The directors of the Company consider that it is merely a reorganization of the Listing Business which has not changed the management and operations of the Listing Business. Accordingly, the consolidated financial statements of the Group are presented using the carrying values of the Listing Business controlled by the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with HKFRS issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual periods beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government.

- Amendment to HKAS 32 "Classification of rights issues" is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to HK(IFRIC) – Int 14 "Prepayments of a minimum funding requirement" is effective for annual period beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- HK(IFRIC) – Int 19 "Extinguishing financial liabilities with equity instruments" is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Amendment to HKFRS 1 "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters". The amendment is to provide first-time adopters with the same transition provisions as included in the March 2009 amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. It is effective for annual periods beginning on or after 1 July 2010 but there is no impact on the Company because it is not a first time adopter of HKFRS.

- Annual improvement project published in 2010 to amend the following standards:

  - HKFRS 7 'Financial Instruments: Disclosures'
  - HKAS 1 'Presentation of Financial Statements'
  - Transition requirements for amendments arising as a result of HKAS 27 'Consolidated and Separate Financial Statements'
  - HKAS 34 'Interim Financial Reporting'
  - HK(IFRIC) – 'Int 13 Customer Loyalty Programmes'
  - HKFRS 1 'First-time Adoption of Hong Kong Financial Reporting Standards'
  - HKFRS 3 (Revised) 'Business Combinations'

The amendments do not have significant impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in Accounting Policy and Disclosures *(Continued)*

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:

	Effective for annual periods beginning on or after
HKFRS 1 'Severe hyperinflation and removal of fixed dates for first-time adopters' – Amendment	1 July 2011
HKFRS 7 'Disclosures – Transfers of financial assets' – Amendment	1 July 2011
HKFRS 9, 'Financial instruments' – Classification and Measurement	1 January 2015
HKFRS 10 'Consolidated financial statements' – Amendment	1 January 2013
HKFRS 11 'Joint arrangements' – Amendment	1 January 2013
HKAS 12 'Deferred tax: Recovery of underlying assets' – Amendment	1 January 2012
HKFRS 12 'Disclosures of interests in other entities' – Amendment	1 January 2013
HKFRS 13 'Fair value measurement' – Clarification	1 January 2013
HKAS 1 'Presentation of financial statements' – Amendment	1 July 2012
HKAS 19 'Employee benefits' – Amendment	1 January 2013
HKAS 28 'Investment in associates and joint ventures' – Amendment	1 January 2013

Management does not anticipate that the application of the revised standards will result in a material impact on the Group's consolidated financial statements.

2.3 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including special purpose 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 Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries *(Continued)*

(a) Consolidation *(Continued)*

The Group uses the acquisition method of accounting to account for business combinations, except for those acquisitions that qualify as business combinations under common control, which are accounted for using merger accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

The particulars of the Group's subsidiaries as at 31 December 2011 are set out in Note 9.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 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, who make strategic decisions.

2.5 Foreign Currency Translation

(a) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Before 1 September 2010, the Company adopted Renminbi Yuan ("RMB") as its functional currency. Following a change of its primary economic environment in response to the business expansion plan in the international market, the functional currency of the Company, together with its immediate wholly owned subsidiary, O-NET BVI, which is also principally engaged in investment holding, was changed to United States dollars ("USD") with effect from 1 September 2010. The directors of the Company consider USD would be more appropriate to act as the functional currency in reflecting the underlying transactions that are relevant to the Company. This change was applied prospectively.

The functional currency of the subsidiary in the People's Republic of China (the "PRC") is RMB, and the functional currency of the subsidiaries outside of the PRC is USD.

The consolidated financial statements of the Group are presented in HKD, which is the Company's presentation currency. The directors of the Company consider that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the readers of the financial statements.

(b) Transactions and Balances

Foreign currency transactions are translated into the functional currency of the respective entities within the Group using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the consolidated income statement within 'finance income/(cost) – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign Currency Translation *(Continued)*

(c) Group Companies

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income.

2.6 Land Use Right

Land use right is up-front payments to acquire long-term interests in the usage of land and it is accounted for as an operating lease. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.7 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 consolidated income statement 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 the end of each reporting period.

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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Intangible Assets

(a) Patent

Patent represents purchased technology from 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.

2.9 Impairment of Non-financial Assets

Assets 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial Assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. 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 reporting 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 (excluding prepayments), pledged bank deposits, term deposits with initial term of over three months and cash and cash equivalents in the consolidated balance sheet (Notes 2.13 and 2.14).

(b) Recognition and Measurement

Regular way purchases and sales of financial assets 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial Assets *(Continued)*

(b) Recognition and Measurement *(Continued)*

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 amortized cost using the effective interest method.

2.11 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Impairment testing of trade and other receivables is described in Note 2.13.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2.12 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.

2.13 Trade and Other Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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 consolidated income statement. 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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 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.

2.15 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity holders of the Company.

2.16 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Current and Deferred Income Tax

The tax expenses for the period comprise current and deferred tax. Tax is recognized in the consolidated income statement, 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 in other comprehensive income or directly in equity, respectively.

(a) Current Income Tax

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and Deferred Income Tax *(Continued)*

(b) Deferred Income Tax

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 consolidated financial statements. 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 for deferred income tax liability 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.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 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 organized 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee Benefits *(Continued)*

(b) Pension Obligations *(Continued)*

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 consolidated income statement as incurred.

2.19 Share-based Payments

(a) Equity-settled Share-based Payment Transactions

The Group operates two share option schemes, one was adopted before the IPO (the "Pre-IPO Share Option Scheme") and another was adopted by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"). Under the two option schemes, the entities within the Group receive services from employees as consideration for equity instruments (options) of the Company or a shareholder of the Company. The fair value of the employee 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 (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

Under the Pre-IPO Share Option Scheme, the shares authorized for the issuance of options are shares of a shareholder of the Company (see Note 30 for more details). Under the Post-IPO Share Option Scheme, the shares authorized for issuance of options are the shares of the Company.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Share-based Payments *(Continued)*

(b) Share-based Payment Transactions Among Group Entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return 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 using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognized using the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue Recognition *(Continued)*

(c) Dividend Income

Dividend income is recognized when the right to receive payment is established.

2.22 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. No development costs had been capitalized for the year ended 31 December 2011 (2010 – Nil).

2.23 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 to the consolidated income statement on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 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 consolidated income statement as other gain over the period necessary to match them with the costs they are intended to compensate.

2.25 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

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 minimize 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 USD (for entities within the Group using RMB as functional currency), HKD and RMB. Given HKD is pegged with USD, the directors of the Company consider that the related foreign exchange risk is low. The major foreign exchange risk relates to the fluctuation of USD against RMB. 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(a) Foreign Exchange Risk *(Continued)*

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities as at the respective balance sheet dates are as follows:

	As at 31 December	
	2011	2010
	HKD'000	HKD'000
Assets		
RMB (recorded by entities within the Group using USD as functional currency)	**305,003**	331,394
USD (recorded by entities within the Group using RMB as functional currency)	**94,740**	94,401
HKD	**40,244**	29,807
Japanese Yen ("JPY")	**1,215**	8,150
Euro	**93**	100
Liabilities		
USD (recorded by entities within the Group using RMB as functional currency)	**20,357**	33,759
HKD	**1,785**	1,676
Euro	**159**	–
Japanese Yen ("JPY")	**36**	95

At 31 December 2011, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD11,531,000 (2010 – HKD13,538,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated and USD-denominated cash in banks and trade receivables. 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.

(b) Interest Rate Risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets as at 31 December 2011 (2010 – same). Fluctuation of market rates does not have a significant impact to the Group's performance. The Group does not have any interest-bearing liabilities as at 31 December 2011 (2010 – same).

(c) Price Risk

As at 31 December 2011, the Group did not hold any equity securities that were traded publicly. Accordingly, it was not exposed to commodity price risk (2010 – same) as at 31 December 2011.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(d) Credit Risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, pledged bank deposits, term deposits with initial term of over three months and trade and other receivables.

The carrying amounts of cash and cash equivalents, pledged bank deposits, term deposits with initial term of over three months and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

For cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months, management manages the credit risk by placing deposits in state-owned financial institutions in the PRC or reputable banks, financial institutions having high-credit-quality in both the PRC and Hong Kong. The details are as follows:

	As at 31 December	
	2011	2010
	HKD'000	HKD'000
Balances placed with listed banks in the PRC	**517,900**	608,339
Balances placed with listed banks and deposit taking company in Hong Kong	**327,525**	35,460
Balance placed with unlisted bank in the PRC	**40,141**	273,812
	885,566	917,611

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its customers' financial condition and it generally does not require collateral from the customers against 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. As at 31 December 2011, the Group also maintained a deposit of HKD35,858,000 with a security broker in Hong Kong with money-taking capability. The amount was fully withdrawn subsequent to year end.

(e) Liquidity Risk

The Group aims to maintain sufficient cash and cash equivalents to ensure the availability of funding to meet the dynamic nature of the underlying businesses of the Group.

As at 31 December 2011, the Group's financial liabilities were all due within 12 months from the balance sheet date (2010 – same). Their contractual amounts to be paid approximate to their carrying amounts as shown in the consolidated balance sheet (2010 – same).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, 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 Group did not maintain any debt as at 31 December 2011(2010 – same).

3.3 Fair Value Estimation

The Group adopts the amendments to HKFRS 7 'Financial Statements: disclosures' for financial instruments that are measured in the consolidated balance sheet 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 (level 1).
- 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) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2011, the Group did not have any assets or liabilities that were measured at fair value (2010 – same).

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are 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.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

4.1 PRC Enterprise Income Tax and Deferred Taxation *(Continued)*

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it's 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 by making an assessment on the recoverability of trade and other receivables, with reference made to the magnitude and expected duration of recovery of the outstanding amounts. 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 realizability 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 years in which such estimate has been changed.

4.4 Recognition of Share-based Compensation Expenses

As mentioned in Note 30, the Group had granted share options to its employees and directors under the Post-IPO Share Option Scheme during the year ended 31 December 2011. The directors have used the Trinomial Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Trinomial Model (Note 30).

The fair value of options granted during the year ended 31 December 2011 determined using the Trinomial Model was approximately HKD39,573,000.

The Group has to estimate the expected yearly percentage of grantees of share options that will stay within the Group at the end of the vesting period ("Expected Retention Rate") in determining the amount of share-based compensation expenses to be charged into the consolidated income statement. As at 31 December 2011, the Expected Retention Rate was assessed to be approximately 78%.

If the Expected Retention Rate had been increased by 5 percentage points to 83%, the amount of share-based compensation expenses charged to the consolidated income statement for the year ended 31 December 2011 would be increased by approximately HKD2,319,318.

5 SEGMENT REPORTING – GROUP

The chief operating decision-maker ("CODM") has been identified as the senior executive management of the Company. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources.

Due to the fact that the Group continued to diversify its product ranges, starting from the second half of 2010, the senior executive management team no longer review and assess the performance of each individual product or a particular category of products. Instead, they assess performance and allocate resources according to the total revenues derived from each customer. Gross/net profits and costs are managed in aggregate on entity level, not on individual product or customer level. As a result of such change, the CODM considers that the Group has only one single operating segment and no segment information was disclosed.

All the reported revenues from sales of goods were made to external customers for the year ended 31 December 2011 (2010 – same).

(a) Revenue from external customers in the PRC, Europe, North America and other Asia countries excluding the PRC is as follows, they are determined by the places of shipment.

	2011 **HKD'000**	2010 HKD'000
The PRC	**315,671**	312,682
Europe	**199,951**	166,955
North America	**31,178**	57,374
Other Asia countries excluding the PRC	**122,581**	123,566
	669,381	660,577

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2011 and 2010 are as follows:

	2011 **HKD'000**	2010 HKD'000
The PRC	**270,015**	111,575
Hong Kong	**117**	160
	270,132	111,735

(c) During the year ended 31 December 2011, revenue derived from sales made to two (2010 – two) single external customers amounted to approximately 35% (2010 – 33%) of the Group's total revenue.

6 LAND USE RIGHT – GROUP

The Group's interests in land use right represent prepaid operating lease payments for a piece of land located in the PRC and its net book value are analyzed as follows:

	2011 HKD'000	2010 HKD'000
Outside of Hong Kong		
– Lease of 50 years	**29,541**	28,765

	Land use right HKD'000
Year ended 31 December 2010	
Opening net book amount	28,396
Amortization charge	(606)
Exchange difference	975
Closing net book amount	28,765
Year ended 31 December 2011	
Opening net book amount	**28,765**
Amortization charge	**(636)**
Exchange difference	**1,412**
Closing net book amount	**29,541**

Amortization of land use right is recognized as an expense on a straight-line basis over the unexpired period of the rights. The remaining lease period of land use right as at 31 December 2011 was 45 years.

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Machinery HKD'000	Motor vehicles HKD'000	Furniture, fitting &equipment HKD'000	Construction in progress HKD'000	Total HKD'000
At 1 January 2010					
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
Year ended 31 December 2010					
Opening net book amount	6,171	215	32,169	1,602	40,157
Additions	392	807	43,271	9,139	53,609
Transfers	–	–	513	(513)	–
Depreciation	(2,142)	(151)	(11,538)	–	(13,831)
Exchange difference	172	23	1,873	257	2,325
Closing net book amount	4,593	894	66,288	10,485	82,260
At 31 December 2010					
Cost	24,929	1,670	141,361	10,485	178,445
Accumulated depreciation	(20,336)	(776)	(75,073)	–	(96,185)
Net book amount	4,593	894	66,288	10,485	82,260
Year ended 31 December 2011					
Opening net book amount	**4,593**	**894**	**66,288**	**10,485**	**82,260**
Additions	**14,674**	**–**	**46,991**	**113,047**	**174,712**
Disposals	**–**	**–**	**(8)**	**–**	**(8)**
Depreciation	**(3,004)**	**(217)**	**(21,251)**	**–**	**(24,472)**
Exchange difference	**501**	**39**	**3,890**	**3,169**	**7,599**
Closing net book amount	**16,764**	**716**	**95,910**	**126,701**	**240,091**
At 31 December 2011					
Cost	**41,183**	**1,753**	**196,445**	**126,701**	**366,082**
Accumulated depreciation	**(24,419)**	**(1,037)**	**(100,535)**	**–**	**(125,991)**
Net book amount	**16,764**	**716**	**95,910**	**126,701**	**240,091**

7 PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

(a) Depreciation expenses have been charged to the consolidated income statement as follows:

	2011 HKD'000	2010 HKD'000
Cost of sales	**19,279**	10,677
Selling and marketing costs	**32**	15
Research and development expenses	**2,427**	1,265
Administrative expenses	**2,734**	1,874
	24,472	13,831

(b) For the year ended 31 December 2011, lease rentals amounting to HKD10,145,000 (2010 – HKD8,368,000) for leases of office buildings and plant of the Group had been included in the consolidated income statement.

(c) Construction in progress as at 31 December 2011 mainly comprised costs incurred for a new production plant under construction, which is located in Pingshan, Shenzhen, the PRC.

8 INTANGIBLE ASSETS – GROUP

	Patent HKD'000	Computer software HKD'000	Total HKD'000
At 1 January 2010			
Cost	210	572	782
Accumulated amortization	(61)	(225)	(286)
Net book amount	149	347	496
Year ended 31 December 2010			
Opening net book amount	149	347	496
Additions	–	398	398
Amortization charge	(30)	(171)	(201)
Exchange difference	1	16	17
Closing net book amount	120	590	710
At 31 December 2010			
Cost	210	998	1,208
Accumulated amortization	(90)	(408)	(498)
Net book amount	120	590	710
Year ended 31 December 2011			
Opening net book amount	**120**	**590**	**710**
Amortization charge	**(30)**	**(205)**	**(235)**
Exchange difference	**–**	**25**	**25**
Closing net book amount	**90**	**410**	**500**
At 31 December 2011			
Cost	**210**	**1,048**	**1,258**
Accumulated amortization	**(120)**	**(638)**	**(758)**
Net book amount	**90**	**410**	**500**

The amortization charge has all been included in administrative expenses in the consolidated income statement (2010 – same).

9 INVESTMENT IN SUBSIDIARIES – COMPANY

	2011 HKD'000	2010 HKD'000
Investments in subsidiaries:		
– Investments in equity interests – at cost, unlisted	**433,482**	433,482
– Deemed investment arising from share-based compensation to the employees of subsidiaries (Note a)	**36,958**	9,187
	470,440	442,669

Note a: The amount represents share-based compensation expenses arising from granting of share options to employees of the Company's subsidiaries in exchange for their services provided to these subsidiaries (Note 30).

As at 31 December 2011, the Company had direct or indirect interests in the following subsidiaries:

Name	Date of incorporation	Place of incorporation	Share capital or paid-in capital	Interest held directly	Interest held indirectly	Principal activities and place of operation
O-NET BVI	6 November 2006	BVI	USD28,991	100%	–	Investment holding
O-NET Shenzhen	23 October 2000	Shenzhen, the PRC, limited liability company	HKD300,000,000	–	100%	Design, manufacturing and sales of optical networking products, Shenzhen, the PRC
O-NET Hong Kong	25 September 2000	Hong Kong	HKD1,000,000	–	100%	Sales of optical networking products, Hong Kong

All the above subsidiaries are limited liability companies.

10 INVENTORIES – GROUP

	2011 HKD'000	2010 HKD'000
Cost:		
Raw materials	**48,826**	59,759
Work-in-progress	**39,805**	31,644
Finished goods	**31,242**	24,637
Less: provision for write-down of inventories to net realizable values	**(4,423)**	(1,463)
	115,450	114,577

For the year ended 31 December 2011, the cost of inventories recognized as cost of sales, selling and marketing costs, research and development expenses and administrative expenses amounted to HKD275,896,000 (2010 – HKD260,694,000).

For the year ended 31 December 2011, the Group made provision for write-down of inventories to net realizable values of approximately HKD2,820,000 (2010 – written back provision of HKD1,073,000). These amounts have been included in cost of sales in the consolidated income statement.

11 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

Group	**Loans and receivables** HKD'000
Assets	
As at 31 December 2011:	
Trade and other receivables excluding prepayments (Note 12)	**292,352**
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 13)	**885,596**
Total	**1,177,948**
As at 31 December 2010:	
Trade and other receivables excluding prepayments (Note 12)	268,194
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 13)	917,660
Total	1,185,854

11 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(Continued)

Group	Other financial liabilities HKD'000
Liabilities	
As at 31 December 2011:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 17)	**155,988**
As at 31 December 2010:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 17)	129,129

Company	Loans and receivables HKD'000
Assets	
As at 31 December 2011:	
Trade and other receivables (Note 12)	**131,726**
Cash and cash equivalents and term deposits with initial term of over three months (Note 13)	**456,726**
Total	**588,452**
As at 31 December 2010:	
Trade and other receivables (Note 12)	76,992
Cash and cash equivalents and term deposits with initial term of over three months (Note 13)	555,134
Total	632,126

11 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(Continued)

Company	Other financial liabilities HKD'000
Liabilities	
As at 31 December 2011:	
Trade and other payables (Note 17)	**11,606**
Total	**11,606**
As at 31 December 2010:	
Trade and other payables (Note 17)	11,814
Total	11,814

12 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		**Company**	
	2011 HKD'000	2010 HKD'000	**2011 HKD'000**	2010 HKD'000
Trade receivables (Note a)	**228,862**	222,093	**–**	–
Less: provision for impairment of receivables (Note b)	**(1,346)**	(1,770)	**–**	–
Trade receivables – net	**227,516**	220,323	**–**	–
Amounts due from related parties (Note 29(d))	**42**	–	**–**	–
Amounts due from subsidiaries	**–**	–	**117,330**	74,419
Bills receivable (Note c)	**60,148**	39,902	**–**	–
Prepayments	**2,171**	2,732	**–**	–
Interest receivables	**1,671**	3,984	**396**	2,550
Other receivables	**2,975**	3,985	**–**	23
Dividend receivables	**–**	–	**14,000**	–
	294,523	270,926	**131,726**	76,992

As at 31 December 2011, the fair value of trade and other receivables of the Group and the Company approximated their carrying amounts (2010 – same).

12 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(Continued)*

Note:

a The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**135,719**	131,941	**–**	–
USD	**157,092**	129,404	**396**	2,550
HKD	**497**	1,431	**131,330**	74,442
JPY	**1,215**	8,150	**–**	–
	294,523	270,926	**131,726**	76,992

The credit period generally granted to customers is from 30 to 105 days. The ageing analysis of trade receivables based on invoice date is as follows:

Trade receivables	Group	
	2011	2010
	HKD'000	HKD'000
Within 30 days	**72,933**	93,426
31 to 60 days	**68,128**	58,083
61 to 90 days	**42,391**	27,014
91 to 180 days	**40,701**	32,371
181 to 365 days	**795**	9,179
Over 365 days	**3,956**	2,020
	228,904	222,093

As at 31 December 2011, trade receivables of HKD73,040,000 (2010 – HKD61,262,000) were past due but not impaired. They relate to a number of independent customers that have good reputation and good trading and settlement history maintained with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances since there have not been any significant changes in their credit quality and the balances are considered fully recoverable. The ageing analysis of these past due trade receivables is as follows:

	Group	
	2011	2010
	HKD'000	HKD'000
Past due 1 to 90 days	**68,966**	48,815
Past due 91 to 180 days	**1,226**	9,904
Past due 181 to 365 days	**2,257**	2,254
Past due over 365 days	**591**	289
	73,040	61,262

As at 31 December 2011, trade receivables of HKD1,346,000 (2010 – HKD1,770,000) were impaired. All these balances had been fully provided for impairment losses. The ageing of these trade receivables is based on invoice date as follows:

	Group	
	2011	2010
	HKD'000	HKD'000
Past due 90 to 180 days	**–**	1
Past due 181 to 365 days	**–**	52
Past due over 365 days	**1,346**	1,717
	1,346	1,770

12 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(Continued)*

Note: *(Continued)*

b Movement of the provision for impairment of trade receivables is as follows:

	Group	
	2011	2010
	HKD'000	HKD'000
Opening balance	**1,770**	1,622
(Write-back of)/provision for impairment	**(494)**	94
Exchange difference	**70**	54
Closing balance	**1,346**	1,770

c Bills receivable are with maturity dates between 30 and 180 days. The ageing analysis of bills receivable is as follows:

Bills receivable	Group	
	2011	2010
	HKD'000	HKD'000
Within 30 days	**7,769**	10,548
31 to 90 days	**24,951**	8,656
91 to 180 days	**27,428**	20,698
	60,148	39,902

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

13 CASH AND CASH EQUIVALENTS, TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS AND PLEDGED BANK DEPOSITS – GROUP AND COMPANY

	Group		Company	
	2011	2010	**2011**	2010
	HKD'000	HKD'000	**HKD'000**	HKD'000
Cash and cash equivalents (Note a)	**768,643**	507,812	**406,026**	360,134
Term deposits with initial term of over three months	**50,700**	382,877	**50,700**	195,000
Pledged bank deposits (Note b)	**66,253**	26,971	**–**	–
	885,596	917,660	**456,726**	555,134

Note:

a As at 31 December 2011, RMB denominated bank deposits placed by the Company in non-residence bank accounts with financial institutions in Hong Kong and the PRC amounted to HKD306,785,000. Though these RMB deposits can be freely withdrawn by the Company in Hong Kong, the conversion of these deposits to RMB for use in the PRC is subject to relevant rules and regulations of foreign exchange controls promulgated by the PRC government.

b The pledged bank deposits had been pledged as guarantee for payables due to contractors and suppliers for the construction of the new factory facilities and for bills payables due to raw material suppliers of the Group.

13 CASH AND CASH EQUIVALENTS, TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS AND PLEDGED BANK DEPOSITS – GROUP AND COMPANY *(Continued)*

Cash and cash equivalents, term deposits with initial term of over three months and pledged bank deposits are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**655,298**	634,375	**306,785**	331,394
USD	**190,458**	254,809	**112,123**	218,593
HKD	**39,747**	28,376	**37,818**	5,147
EUR	**93**	100	**–**	–
	885,596	917,660	**456,726**	555,134

Cash at bank earned interest at floating rate.

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.

The effective rate interest rate for the term deposits of the Group with initial term of over three months as at 31 December 2011 was 2.45%. (2010 – 2.88%).

14 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

Group and Company:

	Authorized share capital – ordinary shares of par value of HKD0.01 each	
	Number of shares	HKD
Upon incorporation of the Company on 12 November 2009 (Note a)	39,000,000	390,000
Increase in authorized share capital on 9 April 2010 (Note c)	9,961,000,000	99,610,000
As at 31 December 2010 and 2011	10,000,000,000	100,000,000

14 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY *(Continued)*

	Issued and fully paid up – ordinary shares of par value of HKD0.01 each		**Share premium**
	Number of shares	HKD'000	HKD'000
Issued on 12 November 2009 (Note a)	1	–	–
Issued on 22 February 2010 (Note b)	9,999	–	218,376
Issued upon the IPO (Note d)	193,280,000	1,933	510,847
Capitalization of share premium (Note e)	579,805,240	5,798	(5,798)
Issued under a private placement on 15 November 2010 (Note f)	60,000,000	600	325,468
As at 31 December 2010	833,095,240	8,331	1,048,893
Repurchase and cancellation of shares during the year ended 31 December 2011 (Note g)	**(33,108,000)**	**(331)**	**(73,781)**
As at 31 December 2011	**799,987,240**	**8,000**	**975,112**

Note:

a Upon the incorporation of the Company, its authorized share capital was HKD390,000, divided into 39,000,000 ordinary shares at par value of HKD0.01 each. The initial one subscriber share at par value of HKD0.01 was issued and allotted to O-NET Cayman.

b On 22 February 2010, the Company issued additional 9,999 shares at par value of HKD0.01 each to O-NET Cayman and all the above mentioned 10,000 ordinary shares were credited as fully paid up by the Company in consideration of the transfer by O-NET Cayman of all its shareholding interests in O-NET BVI to the Company.

c On 9 April 2010, the shareholders of the Company passed a resolution to increase the authorized share capital of the Company from HKD390,000 to HKD100,000,000 by the creation of 9,961,000,000 additional ordinary shares at par value of HKD0.01 each.

d Upon the IPO of the Company on 29 April 2010, the Company issued 193,280,000 ordinary shares at par value of HKD0.01 each (the "New Issue") and at an issue price of HKD2.9 per share. The net proceeds from the IPO were approximately HKD512,780,000, after deduction of share issuance costs of approximately HKD47,732,000.

e Immediately after the completion of the New Issue, share premium arising from the IPO amounting to approximately HKD5,798,000 was capitalized and applied, as paying up in full at par, against 579,805,240 ordinary shares issued to the then shareholders whose names appeared on the Company's register of members as at the close of business on 13 April 2010.

f On 15 November 2010, the Company issued 60,000,000 ordinary shares at par value of HKD0.01 each to certain institutional investors at a price of HKD5.50 per share. The net proceeds from the issuance were approximately HKD326,068,000, after deduction of share issuance costs of approximately HKD3,932,000.

g During the year ended 31 December 2011, the Company repurchased and cancelled 33,108,000 ordinary shares.

15 OTHER RESERVES – GROUP AND COMPANY

Group:

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Capital reserve arising from Reorganization HKD'000 (Note a)	Currency translation reserve HKD'000	Total HKD'000
Balance at 1 January 2010	–	21,636	(85,421)	8,626	(55,159)
Share option scheme – value of services (Note 30)	–	11,587	–	–	11,587
Currency translation differences	–	–	–	19,524	19,524
Effects of change of functional currency	–	–	–	167	167
Balance at 31 December 2010	–	33,223	(85,421)	28,317	(23,881)
Balance at 1 January 2011	**–**	**33,223**	**(85,421)**	**28,317**	**(23,881)**
Share option scheme – value of services (Note 30)	**–**	**27,864**	**–**	**–**	**27,864**
Repurchase and cancellation of shares	**331**	**–**	**–**	**–**	**331**
Currency translation differences	**–**	**–**	**–**	**33,351**	**33,351**
Balance at 31 December 2011	**331**	**61,087**	**(85,421)**	**61,668**	**37,665**

Note a: The Company undertook the Reorganization during the year ended 2010 (refer to Note 1 for details). The share capital and share premium in the consolidated financial statements as at 31 December 2010 reflect the share capital and share premium of the Company as if it had always been issued. The difference between the capital reserve of the consolidated financial statements of the Listing Business (explained in Note 1) and the share capital and share premium of the Company was presented as capital reserve arising from Reorganization.

Company:

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Currency Translation reserve HKD'000	Total HKD'000
Balance at 1 January 2010	–	–	–	–
Share option scheme – value of services (Note 30)	–	9,191	–	9,191
Currency translation differences	–	–	3,080	3,080
Balance at 31 December 2010	–	9,191	3,080	12,271
Balance at 1 January 2011	**–**	**9,191**	**3,080**	**12,271**
Share option scheme – value of services (Note 30)	**–**	**27,767**	**–**	**27,767**
Repurchase and cancellation of shares	**331**	**–**	**–**	**331**
Currency translation differences	**–**	**–**	**(953)**	**(953)**
Balance at 31 December 2011	**331**	**36,958**	**2,127**	**39,416**

16 RETAINED EARNINGS – GROUP AND COMPANY

	Group HKD'000	Company HKD'000
At 1 January 2010	32,866	–
Profit/(loss) for the year	181,609	(6,514)
Effect of change of functional currency	1,524	–
Balance at 31 December 2010	215,999	(6,514)
Balance at 1 January 2011	**215,999**	**(6,514)**
Repurchase and cancellation of shares	**(331)**	**(331)**
Profit for the year	**133,449**	**31,603**
Balance at 31 December 2011	**349,117**	**24,758**

17 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2011 HKD'000	2010 HKD'000	**2011 HKD'000**	2010 HKD'000
Trade payables (Note a)	**80,108**	118,208	**–**	–
Amounts due to subsidiaries	**–**	–	**11,556**	11,341
Bills payable (Note c)	**37,944**	–	**–**	–
Accrued expenses	**14,216**	10,604	**50**	473
Payroll payable	**18,775**	9,021	**–**	–
Other payables	**23,720**	317	**–**	–
Advance from customers	**295**	563	**–**	–
Other taxes payable	**487**	4,827	**–**	–
	175,545	143,540	**11,606**	11,814

As at 31 December 2011, the fair value of trade and other payables of the Group and the Company approximated their carrying amounts due to their short maturities (2010 – same).

Note:

a The ageing analysis of trade payables based on invoice date is as follows:

	Group	
	2011 HKD'000	2010 HKD'000
Within 30 days	**40,898**	45,306
31 days to 60 days	**16,221**	21,692
61 days to 180 days	**18,592**	42,503
181 days to 365 days	**724**	5,101
Over 365 days	**3,673**	3,606
	80,108	118,208

17 TRADE AND OTHER PAYABLES – GROUP AND COMPANY *(Continued)*

Note: *(Continued)*

b The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**148,994**	107,839	**11,556**	11,341
USD	**24,571**	33,930	**–**	–
HKD	**1,785**	1,676	**50**	473
Euro	**159**	–	**–**	–
JPY	**36**	95	**–**	–
	175,545	143,540	**11,606**	11,814

c Bills payable are with maturity dates between 30 and 180 days. The ageing analysis of bills payable is as follows:

Bills payable	Group	
	2011	2010
	HKD'000	HKD'000
Within 30 days	**6,945**	–
31 to 90 days	**13,222**	–
91 to 180 days	**17,777**	–
	37,944	–

18 DEFERRED INCOME TAX – GROUP

The analysis of deferred tax assets and liabilities as at 31 December is as follows:

	2011	2010
	HKD'000	HKD'000
Deferred income tax assets:		
– to be recovered within 12 months	**3,571**	2,516
– to be recovered after more than 12 months	**448**	395
	4,019	2,911
Deferred income tax liabilities:	**–**	–

18 DEFERRED INCOME TAX – GROUP *(Continued)*

The gross movement of the deferred income tax account is as follows:

	2011 HKD'000	2010 HKD'000
Deferred tax assets:		
Beginning of the year	**2,911**	924
Charged to the consolidated income statement (Note 23)	**968**	1,932
Exchange difference	**140**	55
End of the year	**4,019**	2,911

Movement in deferred tax assets is as follows:

	Accelerated accounting amortization of fixed assets and intangible assets HKD'000	**Provision for impairment of receivables and write-down of inventories** HKD'000	**Tax losses** HKD'000	**Accrued expenses** HKD'000	**Total** HKD'000
At 1 January 2010	476	437	–	11	924
Credited/(charged) to the consolidated income statement	(38)	(58)	943	1,085	1,932
Exchange difference	(4)	(5)	64	–	55
At 31 December 2010	434	374	1,007	1,096	2,911
At 1 January 2011	**434**	**374**	**1,007**	**1,096**	**2,911**
Credited/(charged) to the consolidated income statement	**65**	**405**	**(852)**	**1,350**	**968**
Exchange difference	**7**	**67**	**(155)**	**221**	**140**
At 31 December 2011	**506**	**846**	**–**	**2,667**	**4,019**

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 unrecognized deferred tax assets as at 31 December 2011 (2010 – same).

As at 31 December 2011, deferred income tax liabilities of approximately HKD32,981,000 (2010: HKD22,138,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD330 million (2010: HKD221 million) of the PRC subsidiary. The directors of the PRC subsidiary had resolved not to distribute these earnings in the foreseeable future.

No deferred income tax assets and liabilities had been offset during the year ended 31 December 2011 (2010 – same).

19 REVENUE AND OTHER GAINS – NET – GROUP

Revenue consists of sales of optic networking subcomponents, components, modules and subsystems. Revenue and other gains recognized during the years ended 31 December 2011 and 2010 are as follows:

	2011 HKD'000	2010 HKD'000
Revenue		
Sales of goods	669,381	660,577
Other gains – net		
Government grants (Note a)	6,026	351
Gain on sales of scrapped or surplus raw materials	651	928
Gain on disposal of property, plant and equipment, net	12	–
Others	(28)	(154)
	6,661	1,125
Total	676,042	661,702

Note a: The government grants were mainly received from the Finance Committee of Shenzhen Municipality as a subsidy to award the achievements of O-NET Shenzhen in its technology development.

20 EXPENSES BY NATURE – GROUP

Expenses included in cost of sales, selling and marketing costs, research and development expenses and administrative expenses are analyzed as follows:

	2011 HKD'000	2010 HKD'000
Staff costs – excluding share options granted to directors and employees	149,754	106,526
Share option expenses		
– For options granted to sales distributors	–	367
– For options granted to directors and employees (Note 21)	27,864	11,220
Raw materials consumed	290,662	284,953
Changes in inventories of finished goods and work in progress (Note 10)	(14,766)	(24,259)
Depreciation (Note 7)	24,472	13,831
Amortization (Notes 6, 8)	871	807
(Write back of)/provision for impairment provision for doubtful receivables (Note 12)	(494)	94
Provision for/(write back of) write-down of inventories (Note 10)	2,820	(1,073)
Sales commissions	18,473	19,616
Utilities charges	16,512	13,286
Operating lease rental (Note 7)	10,145	8,368
Freight charges	5,032	4,452
Auditors' remuneration	2,298	2,298
Professional expenses	2,056	5,407
Travelling expenses	2,119	2,059
Advertising costs	1,187	859
Others	6,910	6,118
	545,915	454,929

21 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS – GROUP

	2011 HKD'000	2010 HKD'000
Salaries, bonus and other welfares	**141,426**	99,311
Pension – defined contribution plans (a)	**8,328**	7,215
Share options granted to directors and employees (Note 20)	**27,864**	11,220
	177,618	117,746

Note:

a **Pensions – Defined Contribution Plans**

The Group participates in defined contribution retirement benefit plans organized by the local government in the PRC. For the years ended 31 December 2011 and 2010, the Group was 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 2011 is set out below:

Name of director	Fees HKD'000	Salary HKD'000	Share options expense HKD'000	Other benefits and allowance HKD'000	Pension Scheme contribution HKD'000	Total HKD'000
Mr. Na Qinglin (Note a)	1,404	–	2,750	230	24	4,408
Mr. Xue Yahong	190	903	671	80	40	1,884
Mr. Chen Zhujiang	145	–	–	–	–	145
Mr. Huang Bin	145	–	–	–	–	145
Mr. Tam Man Chi	145	–	–	–	–	145
Mr. Deng Xinping	289	–	158	–	–	447
Mr. Bai Xiaoshu	289	–	158	–	–	447
Mr. Ong Chor Wei	289	–	158	–	–	447
	2,896	903	3,895	310	64	8,068

21 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS – GROUP *(Continued)*

Note: *(Continued)*

b Directors' Emoluments *(Continued)*

The remuneration of each director of the Company for the year ended 31 December 2010 is set out below:

Name of director	Fees HKD'000	Salary HKD'000	Share options expense HKD'000	Other benefits and allowance HKD'000	Pension Scheme contribution HKD'000	Total HKD'000
Mr. Na Qinglin (Note a)	872	390	1,939	422	24	3,647
Mr. Xue Yahong	560	370	126	119	38	1,213
Mr. Chen Zhujiang	95	–	–	–	–	95
Mr. Huang Bin	95	–	1,222	–	–	1,317
Mr. Tam Man Chi	95	–	–	–	–	95
Mr. Deng Xinping (Note b)	191	–	184	–	–	375
Mr. Bai Xiaoshu (Note b)	191	–	184	–	–	375
Mr. Ong Chor Wei (Note b)	191	–	184	–	–	375
	2,290	760	3,839	541	62	7,492

Note:

a Mr Na Qinglin is also the chief executive of the Company.

b Appointed during the year ended 31 December 2010.

c Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include two directors for the year ended 31 December 2011 (2010 – three), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining three (2010 – two) individuals are as follows:

	2011 HKD'000	2010 HKD'000
Basic salaries	**2,864**	2,455
Pension costs	**48**	48
Bonus	**368**	438
Share option expense	**2,885**	1,698
	6,165	4,639

The emoluments of the five highest paid individuals paid by the Group fell within the following bands:

	2011	2010
Emolument bands		
HKD1,000,001 – HKD1,500,000	**–**	2
HKD1,500,001 – HKD2,000,000	**3**	2
HKD2,500,001 – HKD3,000,000	**1**	–
HKD3,500,001 – HKD4,000,000	**–**	1
HKD4,000,001 – HKD4,500,000	**1**	–
	5	5

No emoluments has been paid to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2011 (2010 – same).

22 FINANCE (INCOME)/COSTS – NET – GROUP

	2011 HKD'000	2010 HKD'000
Finance income		
– Interest income derived from bank deposits	**(12,904)**	(4,648)
– Exchange (gain)/loss	**(11,340)**	7,692
Finance costs		
– Interest expenses on bank borrowings	**176**	–
Finance (income)/costs – net	**(24,068)**	3,044

23 INCOME TAX EXPENSES – GROUP

	2011 HKD'000	2010 HKD'000
Current income tax		
– Hong Kong profits tax (Note b)	**2,698**	–
– PRC enterprise income tax (Note c)	**19,016**	24,052
Total current income tax	**21,714**	24,052
Deferred income tax (Note 18)	**(968)**	(1,932)
Income tax expenses	**20,746**	22,120

Note:

a The Company and O-NET BVI are not subject to profits tax in their jurisdictions.

b The applicable tax rate for Hong Kong profits is 16.5%.

c PRC Enterprise Income Tax (the "PRC EIT")
PRC EIT is provided on the assessable income of entities within the Group incorporated in 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 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, 2010 was the last year that O-NET Shenzhen could enjoy the "5 – Year Tax Concession" (being 50% of the enacted EIT rate of 22% for 2010).

23 INCOME TAX EXPENSES – GROUP *(Continued)*

Note: *(Continued)*

C PRC Enterprise Income Tax (the "PRC EIT") *(Continued)*
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 is entitled to a concessionary EIT tax rate of 15% for a period of 3 years from 2011 to 2013.

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:

	2011 HKD'000	2010 HKD'000
Profit before income tax	**154,195**	203,729
Tax calculated at statutory tax rates applicable to entities comprising the Group	**37,007**	44,820
Tax effect of:		
Preferential tax concession	**(23,028)**	(25,345)
Expenses not deductible for tax purposes		
– Share option expenses	**6,687**	2,549
– others	**80**	96
Income tax expenses	**20,746**	22,120

24 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HKD31,603,000 (2010 – loss of HKD6,514,000).

25 DIVIDENDS

A final dividend in respect of the year ended 31 December 2011 of HKD0.03 per share (2010 – Nil) was proposed pursuant to a resolution passed by the Board on 13 March 2012 and subject to the approval of the shareholders in the annual general meeting to be held on 8 May 2012. These financial statements do not reflect this dividend payable.

26 EARNINGS PER SHARE – GROUP

(a) Basic

Basic earnings per share ("EPS") are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	2011	2010
Profit attributable to equity holders of the Company (HKD'000)	**133,449**	181,609
Weighted average number of ordinary shares in issue (thousands)	**820,058**	720,144
Basic EPS (HKD per share)	**0.16**	0.25

(b) Diluted

Diluted EPS are calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted by the Company (collectively forming the denominator for computing the diluted EPS).

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the periods) based on the sum of the monetary value of the subscription rights attached to the outstanding share options and their relevant remaining share-based compensation expenses to be recorded in future periods. The number of shares so calculated is compared against the number of shares that would have been issued assuming the exercise of the share options.

The above two differences are added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	2011	2010
Profit attributable to equity holders of the Company (HKD'000)	**133,449**	181,609
Weighted average number of ordinary shares in issue (thousands shares)	**820,058**	720,144
Adjustments for share options (thousands shares)	**–**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**820,058**	720,144
Diluted EPS (HKD per share)	**0.16**	0.25

27 CASH GENERATED FROM OPERATIONS – GROUP

Reconciliation from profit before income tax to cash generated from operations:

	2011 HKD'000	2010 HKD'000
Profit before income tax	**154,195**	203,729
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 8)	**25,343**	14,638
Provision for/(write-back of) write-down of inventories (Note 10)	**2,820**	(1,073)
(Write-back of)/provision for impairment provision for doubtful receivables (Note 12)	**(494)**	94
Gain on disposal of property, plant and equipment (Note 19)	**(12)**	–
Interest income (Note 22)	**(12,904)**	(4,648)
Interest expenses (Note 22)	**176**	–
Share options granted to sales distributors, directors and employees (Note 20)	**27,864**	11,587
Changes in working capital:		
– Inventories	**(7,676)**	(57,270)
– Trade and other receivables	**(20,820)**	(110,598)
– Trade and other payables	**20,855**	55,985
– Increase in pledged bank deposits	**(39,282)**	(26,971)
Cash generated from operating activities	**150,065**	85,473

Non-cash Transactions

During the year ended 31 December 2011, the Group settled an outstanding payable balance of approximately HKD6,480,000 due to several suppliers by endorsing certain bills receivable by the Group. All these bills have reached their maturity as at 31 December 2011.

28 COMMITMENTS – GROUP

Operating Leases 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:

	2011 HKD'000	2010 HKD'000
Not later than one year	1,922	7,280
Later than one year	944	–
	2,866	7,280

Capital Commitments

	2011 HKD'000	2010 HKD'000
Capital expenditure contracted for but not provided	68,947	182,800
Capital expenditure authorized but not contracted	–	102,002

29 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY

Certain names of the companies referred to 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
Shenzhen Kaifa Technology Co., Ltd	Holding company of Kaifa HK
Butterfly Technology (Shenzhen) Ltd., Co.	Controlled by key management personnel of the Company

The ultimate controlling party of the Group is considered by the directors of the Company to be the Controlling Shareholders.

29 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY *(Continued)*

(b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the years ended 31 December 2011 and 2010:

Non-recurring transactions

	2011 HKD'000	2010 HKD'000
Sales of goods		
Butterfly Technology (Shenzhen) Ltd., Co.	**42**	–
Purchases of fixed assets		
Butterfly Technology (Shenzhen) Ltd., Co.	**–**	102
Shenzhen Kaifa Technology Co., Ltd	**–**	71
	–	173

In the opinion of the directors of the Company, the above transactions were conducted in the normal course of business at terms as agreed with the related parties.

The Company had following significant transactions with its subsidiary during the years ended 31 December 2011 and 2010:

	2011 HKD'000	2010 HKD'000
Dividend distribution from subsidiary		
O-NET BVI	**14,000**	–

(c) Key management includes directors (executive and non-executive), the company secretary, the heads of the 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:

	2011 HKD'000	2010 HKD'000
Salaries, bonus and other welfares	**7,636**	7,063
Pension – defined contribution plans	**116**	124
Share option expenses	**7,158**	5,801
	14,910	12,988

29 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY *(Continued)*

(d) Balances with Related Parties

As at 31 December 2011 and 2010, the Group had the following balances with related parties:

	2011 HKD'000	2010 HKD'000
Trade receivables (Note i)		
Butterfly Technology (Shenzhen) Ltd., Co.	**42**	–

As at 31 December 2011 and 2010, the Company had the following balances with its subsidiary:

	2011 HKD'000	2010 HKD'000
Dividend receivables		
O-NET BVI	**14,000**	–

Note:

i All these current account balances are interest free and unsecured. They have no fixed repayment dates and are repayable on demand.

30 SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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 (BVI) Limited ("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 indirectly holds 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 Scheme 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"). The Share Option Migration was completed on 9 April 2010.

30 SHARE OPTION SCHEMES *(Continued)*

(a) Pre-IPO Share Option Scheme *(Continued)*

Under the Pre-IPO Share Option Scheme, 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.

Pursuant to the New Option Agreements described previously, the exercise period of type A share options will expire on a date as specified in the schedule of the supplemental trust deed. On 15 April 2011, it was agreed by the parties described above that the expiry date of type A share options with expiring date of 15 April 2011 was extended from 15 April 2011 to 15 April 2013. The extension is regarded as a modification made to the original option plan. However, the change in fair value arising from such modification was assessed by the directors to be insignificant.

The details of the Pre-IPO Share Option Scheme, taking into account the provisions of the New Option Agreements and the effect of the Share Option Migration are as below:

(i) Movement of number of share options outstanding during the years ended 31 December 2011 and 2010 are as follows:

	2011	2010
Beginning of the year	**1,769,211**	2,556,439
Exercised	**(195,332)**	(784,426)
Forfeited	**(7,832)**	(2,802)
End of the year	**1,566,047**	1,769,211

As at 31 December 2011, 1,232,035 share options granted under the Pre-IPO Share Option Scheme were exercisable (2010 – 1,223,679).

30 SHARE OPTION SCHEMES *(Continued)*

(a) Pre-IPO Share Option Scheme *(Continued)*

(ii) Share options outstanding as at 31 December 2011 and 2010 were as follows:

	31 December 2011	31 December 2010	**Expiry date**
Number of share options granted to			
Directors	**228,483**	228,483	September 2015
Employees	**1,337,564**	1,540,728	April 2013 – October 2016
	1,566,047	1,769,211	

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 total expenses for share options granted under the Pre-IPO Share Option Scheme are recognized in the consolidated income statement of the Group in accordance with HK(IFRIC) 11 “IFRS 2 – Group and treasury share transactions”.

(b) Post-IPO Share Option Scheme

During the years ended 31 December 2011 and 2010, the Company granted share options to certain employees and directors under the Post-IPO Share Option Scheme adopted by the Group on 9 April 2010.

The exercise price was determined by the directors of the Company at the higher of (i) the closing price of the share as stated in the SEHK’S daily quotations sheet on the date of grant; (ii) the average closing price per share as stated in the SEHK’S daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of HKD0.01 per share.

30 SHARE OPTION SCHEMES *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

Details of the share options are as follows:

Date of grant	Number of share options granted	Number of share options outstanding as at 31 December 2011	Exercise price	Vesting date
2 June 2010	Tranche 1: 24,318,000 Tranche 2: 1,390,000 Tranche 3: 4,940,000 Total: 30,648,000	27,461,000	HKD3.128	Tranche 1 (for certain directors and employees): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years. Tranche 2 (for certain employees): vesting period commences at the end of the second anniversary of the grant date, equally over a period of 4 years. Tranche 3 (for one director and certain employees): vesting period commences at the end of the third anniversary of the grant date, equally over a period of 3 years.
13 January 2011	Tranche 1: 5,521,000 Tranche 2: 5,613,000 Tranche 3: 5,734,000 Total: 16,868,000	14,807,000	HKD5.374	Tranches 1, 2 & 3 (for certain directors and employees): vesting period commences on 13 July 2011, 13 July 2012 and 13 July 2013 respectively.
10 October 2011	Tranches 1, 2, 3, 4 & 5: 800,000 Total: 4,000,000	4,000,000	HKD1.870	Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years.

All the share options granted and stated above will lapse on 8 April 2020.

30 SHARE OPTION SCHEMES *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

The details of the share options granted under the Post-IPO Share Option Scheme are as below:

(i) Movement of number of share options outstanding during the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
Beginning of the year	**29,610,000**	–
Granted	**20,868,000**	30,648,000
Forfeited	**(3,928,000)**	(1,038,000)
End of the year	**46,550,000**	29,610,000

As at 31 December 2011, 9,117,000 share options granted under the post-IPO share option scheme were exercisable (2010 – Nil).

(ii) The weighted average fair value per share of share options granted under the Post-IPO Share Option Scheme is as follows:

Granted on 2 June 2010:

Weighted average fair value		
Tranche 1	**Tranche 2**	**Tranche 3**
HKD	HKD	HKD
1.46	1.52	1.56

30 SHARE OPTION SCHEMES *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

(ii) *(Continued)*

The fair value of the share options granted during 2010 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD3.128, volatility of 61.12%, dividend yield of 1.5%, expected option life of 10 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 2.421%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

Granted on 13 January 2011:

Weighted average fair value		
Tranche 1	Tranche 2	Tranche 3
HKD	HKD	HKD
1.85	2.15	2.39

The fair value of the share options granted on 13 January 2011 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD5.374, volatility of 61.994%, dividend yield of 1.5%, expected option life of 10 years, expected retention rate of the employees at 76%, and an annual risk-free interest rate of 2.662%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

Granted on 10 October 2011:

Weighted average fair value				
Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
HKD	HKD	HKD	HKD	HKD
0.7337	0.8299	0.9007	0.9576	0.9990

The fair value of the share options granted on 10 October 2011 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.870, volatility of 63.617%, dividend yield of 1.5%, expected option life of 10 years, expected retention rate of the employees at 76%, and an annual risk-free interest rate of 1.222%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

30 SHARE OPTION SCHEMES *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

(iii) Share options outstanding as at 31 December 2011 and 2010 are as follows:

Number of share options granted to	As at 31 December 2011	As at 31 December 2010	Expiry date
Directors	**9,300,000**	8,000,000	8 April 2020
Employees	**37,250,000**	21,610,000	8 April 2020
	46,550,000	29,610,000	

31 SUBSEQUENT EVENT

There were no significant subsequent events up to the date of approval of these financial statements.

Five-Year Financial Summary

CONSOLIDATED INFORMATION

For the year ended 31 December

	2011 HKD'000	2010 HKD'000	2009 HKD'000	2008 HKD'000	2007 HKD'000
Profitability and operating data					
Turnover	**669,381**	660,577	338,385	284,638	229,703
Gross profit	**299,836**	337,816	153,248	106,753	93,989
Selling and marketing costs	**35,275**	33,035	17,436	18,836	17,413
Research and development expenses	**50,854**	31,828	16,875	21,027	18,258
Administrative expenses	**90,241**	67,305	31,445	36,352	32,891
Profit before tax	**154,195**	203,729	88,507	24,851	20,831
Profit for the year	**133,449**	181,609	79,160	22,997	20,300
Profitability ratios					
Gross profit margin	**44.8%**	51.1%	45.3%	37.5%	40.9%
Profit before tax margin	**23.0%**	30.8%	26.2%	8.7%	9.1%
Net profit margin	**19.9%**	27.5%	23.4%	8.1%	8.8%
Operating ratios					
(as a percentage of revenue)					
Selling and marketing costs	**5.3%**	5.0%	5.2%	6.6%	7.6%
Research and development expenses	**7.6%**	4.8%	5.0%	7.4%	7.9%
Administrative expenses	**13.5%**	10.2%	9.3%	12.8%	14.3%

AS AT 31 DECEMBER

	2011 HKD'000	2010 HKD'000	2009 HKD'000	2008 HKD'000	2007 HKD'000
Assets and liabilities data					
Non-current assets	**274,151**	114,646	69,973	68,436	63,017
Current assets	**1,295,569**	1,303,163	252,345	158,126	183,437
Current liabilities	**199,826**	168,467	133,937	119,967	168,304
Equity	**1,369,894**	1,249,342	188,381	106,595	78,150