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)

Connecting
THE WORLD

Interim Report
2012

Corporate Vision

O-Net's vision is to become a leading high-tech company in various selected market segments 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.

CONTENTS

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

10-1 South
Maqueling Industrial Park
Nanshan District
Shenzhen 518057
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 Director
Mr. Na Qinglin
(Co-Chairman of the Board and Chief Executive Officer)

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

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

AUDIT COMMITTEE

Mr. Ong Chor Wei
(Chairman of Audit Committee)
Mr. Deng Xinping
Mr. Zhao Wei

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

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

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

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
760,008,240 shares (as at this report approval date)

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

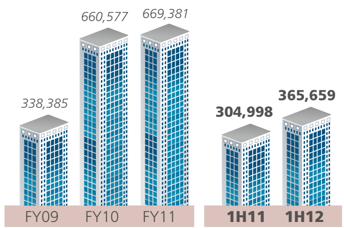
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

Turnover

19.9%

(HKD'000)

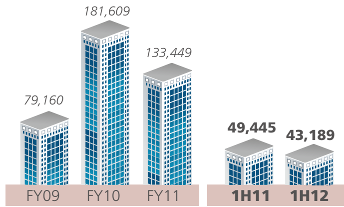


3 yrs CAGR +40.6%

Profit Attributable to Equity Holders of the Company

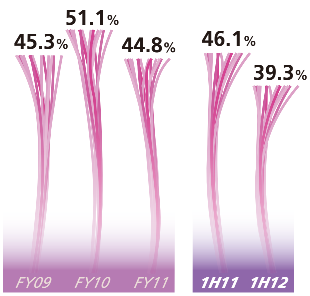
12.7%

(HKD'000)

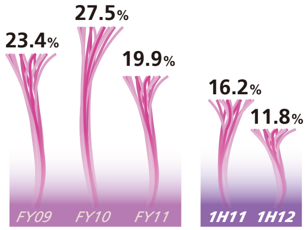


3 yrs CAGR +29.8%

Gross Profit Margin

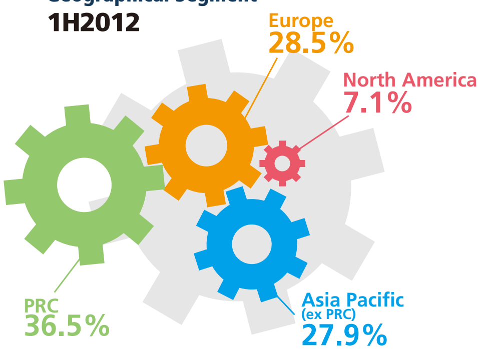


Net Profit Margin



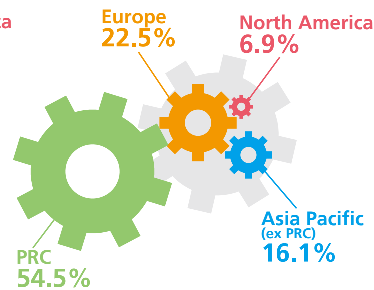
Turnover by Geographical Segment

1H2012



Turnover by Geographical Segment

1H2011



MANAGEMENT DISCUSSION AND ANALYSIS

O-Net Communications (Group) Limited (the "Company") and its subsidiaries (collectively, the "Group") has focused on the research, development, manufacture and sale of passive optical networking products which included sub-components, components, modules and sub-systems mainly used in broadband and optical networking systems. Based on our core proprietary technologies and vertically integrated business model, the Group designs, manufactures and markets our innovative optical products to the leading telecommunications system vendors.

INDUSTRY AND BUSINESS REVIEW

Uncertainties of the European financial crisis has been an ongoing drag to the world economy and turned 2012 into a year full of challenges. Unfortunately, the stringent policies of certain domestic China carriers slowed down their capital expenditure for the current reporting period, as a result, orders from domestic customers reduced significantly compared with the same period of last year. In addition, the delay of new products deployment had limited the growth in revenue. Nevertheless, the Group managed to overcome difficulties and further expand our business scale with customers. During the reporting period, the Group's revenues recorded moderately fast growth.

While the Group sustained growth in revenue for the reporting period, as the results of delay of new products deployment the higher mix of relatively lower margin legacy products and the adoption of competitive pricing strategy, the Group reported lower gross profit margin during the reporting period.

Meanwhile, because of the significant decrease in finance income resulting in a net exchange loss as opposed to a net exchange gain recorded for the same period of last year, lack of government grants and the significant increase in research and development ("R&D") expenses due to the additional R&D expenses for the new products and new business divisions, the Group's net profit was unavoidably affected. Even the Group took a number of measures to alleviate such impact, included continuously increasing its global market share, implementing stringent cost-control measures and improving internal efficiencies through increased automation production processes, which have partially mitigated the negative impact brought about by the operation, the Group consequently reported a low net profit compared with the same period of last year.

FINANCIAL REVIEW

REVENUE

For the first half of 2012, the Group reported revenue of HKD365.7 million, representing a 19.9% growth over the same period of last year. This growth in revenue was attributable to strong growth from overseas customers offsetting the drop in demand from domestic customers.

In the overseas market, even the global capital expenditures remain muted as North America picks up but Asia falters and Europe remains quiet, the Group is continuously increasing its global market share. Moreover, significant investments in the next-generation networks, including the 40G/100G networks in some of the developed countries and the expansion of optical networks in certain Asia countries stimulate the demand of the Group's products. Consequently, revenues from the overseas increased by 67.4% to HKD232.1 million for the first half of 2012, representing 63.5% of its total revenues.

In the domestic market, even the telecommunication network carriers had planned to increase the capital expenditure of optical networks in 2012, the changing business environment led them to impose more stringent policies in their capital expenditure for the first half of 2012. The Group therefore recorded domestic revenue of HKD133.5 million, representing a decline by 19.7% compared with the same period of last year.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit for the first half of 2012 was HKD143.9 million, representing an increase of HKD3.2 million, or 2.2%, from the gross profit of HKD140.7 million for the same period of last year. For the first half of 2012, although revenue reported a significant growth, gross profit only improved slightly when compared with the same period of last year due to reduction in gross profit margin. Gross profit, as a percentage of total revenue or gross profit margin, dropped to 39.3% for the first half of 2012 as compared with 46.1% for the first half of 2011. Even though the Group had continued to launch 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 and the adoption of competitive pricing strategy in 2012.

OTHER GAINS

Other gains dropped significantly by 96.3% from HKD4.1 million for the first half of 2011 to HKD0.2 million for the first half of 2012. The decline was primarily due to the decrease in government grants. Government grants for the first half of 2012 was HKD0.1 million. This represents a decrease of HKD3.6 million, from HKD3.7 million in the same period of last year. The decrease was primarily due to lack of government grants had been approved for the first half of 2012.

SELLING AND MARKETING COSTS

Selling and marketing costs of HKD18.3 million for the first half of 2012 represents an increase of HKD4.1 million, or 28.7%, compared with the selling and marketing costs of HKD14.2 million for the first half of 2011. Selling and marketing costs as a percentage of revenue increased to 5.0% for the first half of 2012 as compared with 4.7% for the first half of 2011. The increase in selling and marketing costs and its percentage of revenues were primarily attributable to the increase in sales commissions and salary cost.

Sales commissions for the first half of 2012 was HKD9.5 million. This represents an increase of HKD3.1 million, or 47.9%, from HKD6.4 million in the same period of last year. The increase was primarily attributable to the increase of overseas sales by 67.4% compared with the same period of last year. We generally incur distributor commission for overseas sales, therefore increasing revenue base from overseas customers results in increase in sales commissions, even a drop in effective commission rate was recorded. The effective commission rate, which is the result of total commissions paid by the Group divided by total overseas revenue, was 4.1% for the first half of 2012 and 4.6% for the first half of 2011. The decrease in the effective commission rate was primarily due to the fact that we paid lower commissions on the legacy products sold which contributed a higher sales mix during the reporting period.

For the first half of 2012, the salary cost was HKD3.3 million, representing an increase of 54.3% compared with the same period of last year. The increase was primarily attributable to increased hiring of sales personnel and rising wages to our sales personnel.

RESEARCH AND DEVELOPMENT EXPENSES

For the first half of 2012, R&D expenses increased by 29.6% to HKD33.3 million, from HKD25.7 million for the same period of last year. Meanwhile, R&D expenses as a percentage of revenue increased to 9.1% for the first half of 2012 as compared with 8.4% for the first half of 2011. The rise in R&D expenses and its percentage of revenues were mainly due to the increase in salary cost.

For the first half of 2012, the salary cost was HKD14.8 million, an increase of 86.9% compared with the same period of last year. The increase was primarily attributable to the increased in hiring of R&D engineers included the R&D talents for the new business divisions and rising wages to our R&D engineers.

ADMINISTRATIVE EXPENSES

For the first half of 2012, administrative expenses were HKD46.8 million, which is 7.6% lower compared with HKD50.7 million for the same period of last year. Administrative expenses as a percentage of revenues decreased to 12.8% for the first half of 2012 as compared with 16.6% for the first half of 2011. The decrease in administrative expenses and its percentage of revenue were primarily attributable to the increase in salary cost is fully offset by the decreases in share options cost, utilities expenses and materials consumed.

For the first half of 2012, the salary cost was HKD22.4 million, which represents an increase of 29.8% compared with the corresponding figures in the previous year. This increase was primarily attributable to our strengthened efforts in hiring new staff members and rising wages.

The share options cost for the first half of 2012 was HKD10.8 million, a decrease of 35.3% from HKD16.7 million for the first half of 2011. The decrease was primarily attributable to the fact that no additional new share options was granted in the first half of 2012 while certain additional share options were granted during the same period of last year.

For the first half of 2012, the utilities expenses and materials consumed were HKD1.5 million and HKD1.2 million respectively, a decrease of 32.1% and 59.4% as compared with the same period of last year. The decrease was primarily attributable to the improvement in the operating efficiency.

FINANCE INCOME

For the first half of 2012, net finance income which amounted to HKD5.8 million is a decrease of HKD6.4 million from the HKD12.1 million for the same period of last year. The drop in net finance income was primarily due to a net exchange loss of HKD0.3 million recorded, compared with a net exchange gain of HKD4.6 million of the same period of last year. The net exchange loss recorded for the first half of 2012 was primarily attributable to the depreciation in Reminbi Yuan ("RMB") as the Company held most of the cash in RMB rather than its functional currency.

PROFIT BEFORE TAX AND PROFIT BEFORE TAX MARGIN

Profit before tax decreased by HKD15.0 million from HKD66.4 million for the first half of 2011 to HKD51.4 million for the first half of 2012. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 21.8% for the first half of 2011 to 14.1% for the first half of 2012. The decrease in profit before tax and profit before tax margin for the first half of 2012 was primarily due to decrease in gross profit margin and finance income, lack of government grants, as well as increase in selling and marketing expenses and R&D expenses as described above.

INCOME TAX EXPENSES

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

Income tax expenses for the first half of 2012 amounted to HKD8.3 million. This represents a drop of HKD8.7 million, or 51.4% from the income tax expense of HKD17.0 million for the same period of last year. The drop in income tax expenses was primarily due to the drop of the estimated enacted tax rate of O-Net Shenzhen, the Group's subsidiary located in the People Republic of China (the "PRC"), from 24% to 15%.

As the outcome of the application for qualification as a High and New Technology Enterprise was uncertain in the first half of 2011, the management considered the enacted tax rate applicable to O-Net Shenzhen was 24% for the first half of 2011. The qualification was later proved to be successful and O-Net Shenzhen is entitled to the concessionary PRC EIT tax rate of 15% in 2011, 2012 and 2013.

The applicable tax rate for Hong Kong profits is 16.5% for 2011 and 2012.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND NET PROFIT MARGIN

Profit attributable to equity holders decreased by HKD6.2 million from HKD49.4 million for the first half of 2011 to HKD43.2 million for the first half of 2012. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, decreased from 16.2% for the first half of 2011 to 11.8% for the first half of 2012. The decrease in profit attributable to equity holders and net profit margin for the first half of 2012 was primarily due to the decrease in gross profit margin and finance income, lack of government grants, as well as increase in selling and marketing expenses and R&D expenses 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 to 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.

	For the year end 30 June	
	2012	2011
	HKD'000	*HKD'000*
Adjustments to measure non-GAAP gross profit		
Gross Profit	**143,871**	140,716
Adjustments related to cost of sales	**–**	–
Non-GAAP Gross Profit	**143,871**	140,716
Adjustments to measure non-GAAP net profit		
Net profit	**43,189**	49,445
Adjustments to measure to operating expenses		
Share options granted to directors, employees and sales distributors	**14,492**	21,213
Amortization of intangible assets	**429**	415
Non-GAAP Net Profit	**58,110**	71,073
Non-GAAP Earnings Per Share		
– Basic	**0.07**	0.09
– Diluted	**0.07**	0.09
Gross Profit Margin	**39.3%**	46.1%
Non-GAAP Gross Profit Margin	**39.3%**	46.1%
Net Profit Margin	**11.8%**	16.2%
Non-GAAP Net Profit Margin	**15.9%**	23.3%

NON-GAAP PROFIT ANALYSIS

Non-GAAP net income for the first half of 2012 was HKD58.1 million, or HKD0.07 per share, compared with non-GAAP net income of HKD71.0 million, or HKD0.09 per share, reported for the first half of 2011. Non-GAAP results for the first half of 2012 exclude HKD14.5 million in share options granted to directors and employees expenses and HKD0.4 million in amortization of intangible assets. Non-GAAP results for the first half of 2011 exclude HKD21.2 million in share options granted to directors and employees expenses and HKD0.4 million in amortization of intangible assets.

RESEARCH AND DEVELOPMENT

During the reporting period, the Group continues to adopt our "Three Strategic Initiatives" by conducting a wide range of R&D activities in order to maintain its leadership in technology, its efficiency in product development and its capabilities in launching new products. During the reporting period, the Group launched a total of 112 new products into the optical networking industry.

In addition, the Group is planning to set up a new R&D office in USA soon for enhancing innovations in new products. This strategic initiative in the USA helps facilitate the Group's recruitment of overseas industry talent at a major source of technology innovation and seize future business opportunities in a timely fashion to generate long term growth for the Group.

Meanwhile, as the Group saw the needs to diversify its business for new growth momentum, the Group continues to recruit new talents in all areas to strengthen our core R&D competence. To this end, the Group had hired a new Vice President of R&D in charge of the R&D of the Automation Equipment Division. Besides, fiber laser product is expected to be launched by fiber laser division in the fourth quarter of 2012.

NEW MANUFACTURING PLANT

The Group has progressed well in a new manufacturing plant first announced in 2010 which located in Pishan District, Shenzhen City, China. The factory building has been topped out and major construction work will also be completed in August 2012. Operation is expected to commence within the fourth quarter of 2012.

The plant sets our foot into the most strategic point of the automation production processes with the solid foundation of the Group by the vertical integrated business model to maximize its profits and market share in optical networking industry.

FUTURE PROSPECTS

As broadband subscribers and data traffic surge significantly given the rapid development of internet applications, and online media, telecommunication, and broadcasting and television network operators globally are accelerating the expansion and upgrade of the optical networks, the Group's outlook for our core business is promising. Even the Group is optimistic of delivering top line growth, profitability will remain challenging. As the Group is starting to see benefits from the new products launched during the reporting period, the margins of optical networking product are expected to show an improving trend in the second half of 2012.

Apart from generating growth in its existing optical networking business, the Group also aims to capture growth opportunities in the new business, such as the automation equipment and fiber laser product industries. To this end, the Group had already started to explore the automation equipment market and the R&D of fiber laser products in 2011 as well as formed the Automation Division and the Fiber Laser Division during the reporting period. 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.

In the coming five years, our goal is to become a diversified high-tech company. With excellent R&D, a strong balance sheet, our market leadership position and efficient operations, the Group is well positioned to grow even more strongly once the global economy enters a sustained period of recovery.

GROUP'S LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2012, the Company's issued share capital was approximately HKD7.8 million divided into 779,155,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,348.3 million (31 December 2011: HKD1,369.9 million). The Group had current assets of approximately HKD1,256.1 million and current liabilities of approximately HKD257.2 million and the current ratio was 4.9 times as at 30 June 2012 (31 December 2011: 6.5 times). The Group's net debt-to-equity ratio (calculated as total borrowing net of cash equivalents over shareholders' equity) was not applicable as at 30 June 2012 since the Group's cash equivalents exceeded the total borrowings. The gearing ratio (calculated as total borrowings over shareholders' equity) was 0.05 (31 December 2011: not applicable since the Group did not have any borrowing.)

As of 30 June 2012, the Group had cash and cash equivalents of approximately HKD579.1 million (31 December 2011: HKD768.6 million). The significant decrease was due to the investment in term deposits made during the reporting period. 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.

For the first half of 2012, the Company repurchased its own shares at a total consideration of approximately HKD46.4 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 30 June 2012, HKD28.2 million bank deposits were 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 HKD21.1 million and HKD67.7 million as guarantee for bills payables due to raw material suppliers and collateral for a secured bank loan respectively.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2012, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 30 June 2012, the Group had contractual capital commitments of approximately HKD37.9 million. As of 30 June 2012, 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

For the first half of 2012, 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 HKD92.4 million (30 June 2011: HKD120.2 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The Group's costs and revenues are mainly in US dollars 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 risk 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 30 June 2012, the Group had a total of 2,230 employees (30 June 2011: 2,021). The Group's staff cost (including Directors' fees) amounted to HKD108.9 million (30 June 2011: HKD87.6 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 Company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 29 April 2010 (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. For the first half of 2012, options in aggregate of 33,851,000 were granted to 3 Directors and 307 employees of the Group in exchange for the cancellation of share options previously granted to them on 2 June 2010 and 13 January 2011 (31 December 2011: options in aggregate of 20,868,000 were granted to 2 Directors and 316 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.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2012 (30 June 2011: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates for the first half of 2012.

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

As at 30 June 2012, the Group maintained sufficient funds for the capital investment and operations in the coming year.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

Apart from the share repurchase and cancellation disclosed at "Purchase, Sale, or Redemption of the Company's Listed Securities" under "Other Information", there has been no material event since the end of the financial period.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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 30 June 2012, approximately HKD339.8 million of the proceeds so raised was used, and the proceeds of approximately HKD173.0 million remain unused.

Details of the used proceeds of approximately HKD339.8 million are as follows:

	Net IPO proceeds (HKD million)		
	Available	**Utilised**	**Unutilised**
New production facilities	200.0	164.0	36.0
Production line and research & development expansion	40.0	40.0	–
Repayment to Shenzhen Kaifa Technology Co., Ltd. for rent and operating expenses paid on behalf of the Group	34.0	34.0	–
Working Capital and Others including M&A	238.8	101.8	137.0
Total	512.8	339.8	173.0

Due to the foreign exchange control in the PRC, most of the net proceeds from the IPO was deposited into a licensed financial institution in Hong Kong. The Group intends to utilize the net proceeds balance in the same manner and proportion as set out in the prospectus of the Company dated 19 April 2010 (the "Prospectus").

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Other than the share options of the Company held by the Directors under the Post-IPO Share Option Scheme, at no time for the first half of 2012 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2012, the interests or short position 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 the 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 POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Name	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	247,913,463 *(Note 1)*	31.82%
	Beneficial owner	Long position	6,800,000 *(Notes 2 & 3)*	0.87%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.20%
Mr. Bai Xiaoshu	Beneficial owner	Long position	500,000 *(Notes 2 & 4)*	0.06%
Mr. Deng Xingping	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 247,913,463 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 50.02% 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, the Co-Chairman, chief executive officer and an executive Director of the Company; therefore, Mr. Na Qinglin is deemed to be interested in these 247,913,463 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 Note 20(b) to the financial statements.

3. The Company proposed to grant 6,800,000 new share options ("Replacement Options") to Mr. Na Qinglin to subscribe for new shares of the Company in exchange for the original share options granted to him on 2 June 2010 and 13 January 2011, which is subject to independent shareholders approval in the extraordinary general meeting of the Company held on 6 July 2012 pursuant to Rule 17.04(1) of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). However, the grant of Replacement Options to Mr. Na Qinglin was not approved, and these Replacement Options were not granted to Mr. Na Qinglin.

4. Mr. Bai Xiaoshu resigned as an independent non-executive Director of the Company on 7 August 2012, and these share options will be lapsed in one month after his resignation.

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO

As at 30 June 2012, 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	29.22%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	227,636,237 *(Note 1)*	29.22%
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	227,636,237 *(Note 1)*	29.22%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	247,913,463	31.82%
Mandarin IT Fund I	Interest of a controlled corporation	Long position	247,913,463 *(Notes 2&3)*	31.82%
HC Capital Limited	Interest of a controlled corporation	Long position	247,913,463 *(Notes 2&3)*	31.82%
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	247,913,463 *(Notes 2&3)*	31.82%
Mr. Yeh Meou-Tsen, Geoffery	Interest of a controlled corporation	Long position	247,913,463 *(Notes 2&3)*	31.82%
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	247,913,463 *(Notes 2&4)*	31.82%
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	247,913,463 *(Notes 2&4)*	31.82%
Mr. Na Qinglin	Interest of a controlled corporation	Long position	247,913,463 *(Notes 2&4)*	31.82%
	Beneficial owner	Long position	6,800,000 *(Note 5)*	0.87%

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 these 227,636,237 shares under the SFO.

2. These 247,913,463 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 50.02% 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 247,913,463 shares held by O-Net Holdings (BVI) Limited 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 247,913,463 shares held by O-Net Holdings (BVI) Limited under the SFO.

5. The Company proposed to grant 6,800,000 Replacement Options to Mr. Na Qinglin to subscribe for new shares of the Company in exchange for the original share options granted to him on 2 June 2010 and 13 January 2011, which is subject to independent shareholders approval in the extraordinary general meeting of the Company held on 6 July 2012 pursuant to Rule 17.04(1) of the Listing Rules. However, the grant of Replacement Options to Mr. Na Qinglin was not approved, and these Replacement Options were not granted to Mr. Na Qinglin.

SHARE OPTION SCHEMES

Details of the Pre-IPO Share Option Scheme are set out in the Prospectus and Note 20(a) to the financial statements.

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 reporting period under the Post-IPO Share Option Scheme are set out below:

Name or category	Date of grant of share options	Exercise period	Exercise price of share options *(HKD)*	Outstanding at 1 January 2012	Granted during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 June 2012
Directors								
Mr. Na Qinglin	2 June 2010	2 June 2011 to 8 April 2020 *(Notes 1 & 10)*	3.128	6,000,000	–	–	–	6,000,000
	13 January 2011	13 July 2011 to 8 April 2020 *(Notes 4 & 10)*	5.374	800,000	–	–	–	800,000
Mr. Deng Xinping	2 June 2010	2 June 2011 to 8 April 2020 *(Note 1)*	3.128	500,000	–	(500,000)	–	–
	1 June 2012	2 June 2012 to 8 April 2020 *(Note 6)*	1.910	–	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)	–	–
	1 June 2012	2 June 2012 to 8 April 2020 *(Notes 6 & 11)*	1.910	–	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)	–	–
	1 June 2012	2 June 2012 to 8 April 2020 *(Note 6)*	1.910	–	500,000	–	–	500,000
Sub-total				8,300,000	1,500,000	(1,500,000)	–	8,300,000

Name or category	Date of grant of share options	Exercise period	Exercise price of share options *(HKD)*	Outstanding at 1 January 2012	Granted during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 June 2012
Other Employees	2 June 2010	2 June 2011 to 8 April 2020 *(Note 1)*	3.128	13,788,000	–	(13,429,000)	(359,000)	–
		2 June 2012 to 8 April 2020 *(Note 2)*		1,890,000	–	(1,360,000)	(530,000)	–
		2 June 2013 to 8 April 2020 *(Note 3)*		4,390,000	–	(4,390,000)	–	–
	13 January 2011	13 July 2011 to 8 April 2020 *(Note 4)*	5.374	14,182,000	–	(13,172,000)	(1,010,000)	–
	10 October 2011	10 October 2012 to 8 April 2020 *(Note 5)*	1.870	4,000,000	–	–	–	4,000,000
	1 June 2012	2 June 2012 to 8 April 2020 *(Note 6)*	1.910	–	13,429,000	–	–	13,429,000
		2 June 2012 to 8 April 2020 *(Note 7)*		–	1,360,000	–	–	1,360,000
		2 June 2013 to 8 April 2020 *(Note 8)*		–	4,390,000	–	–	4,390,000
		2 June 2012 to 8 April 2020 *(Note 9)*		–	13,172,000	–	–	13,172,000
Total				**46,550,000**	**33,851,000**	**(33,851,000)**	**(1,899,000)**	**44,651,000**

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.

6. The vesting period of 40% of the share options was commenced on 2 June 2012, and the remaining 60% of the share options commences on 2 June 2013, equally over a period of 3 years.

7. The vesting period commences on 2 June 2012, equally over a period of 4 years.

8. The vesting period commences on 2 June 2013, equally over a period of 3 years.

9. The vesting period of $^{1}/_{3}$ of the share options was commenced on 2 June 2012, and the remaining $^{2}/_{3}$ of the share options was commenced on 13 July 2012, equally over a period of 2 years.

10. The Company proposed to grant 6,800,000 Replacement Options to Mr. Na Qinglin to subscribe for new shares of the Company in exchange for the original share options granted to him on 2 June 2010 and 13 January 2011, which is subject to independent shareholders approval in the extraordinary general meeting of the Company held on 6 July 2012 pursuant to Rule 17.04(1) of the Listing Rules. However, the grant of Replacement Options to Mr. Na Qinglin was not approved, and these Replacement Options were not granted to Mr. Na Qinglin.

11. Mr. Bai Xiaoshu resigned as an independent non-executive Director of the Company on 7 August 2012, and these share options will be lapsed in one month after his resignation.

A total of 46,550,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2012. On 1 June 2012, a total of 33,851,000 share options under the Post-IPO Share Option Scheme were granted to certain directors and employees of the Group in exchange for the cancellation of 33,851,000 share options previously granted to them, and 1,899,000 share options were lapsed during the reporting period. Save as aforesaid, no further options were granted, cancelled and lapsed during the reporting period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the first half of 2012, the Company repurchased 25,143,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.63 to HKD2.04 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share Highest	Purchase price per share Lowest	Aggregate purchase consideration (excluding expenses)
		HKD	*HKD*	*HKD*
May 2012	14,144,000	1.88	1.63	24,916,000
June 2012	10,999,000	2.04	1.78	21,452,000
Total	25,143,000			46,368,000

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 reporting period.

In July 2012, the Company further repurchased 14,836,000 the Company's listed securities at an aggregate purchase consideration of HKD27,579,000.

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 of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code for the first half of 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005 and was recently revised and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code") with effect from 1 April 2012.

For the first half of 2012, the Company was in compliance with the code provisions set out in the Former CG code and the New CG Code except for the deviations from code provision A.2.1 which is explained below.

Under code provision A.2.1 of the Former CG Code and the New CG Code, the responsibilities between the chairman ("Chairman") and the chief executive officer ("CEO") should be divided. The Company has a CEO, Mr. Na Qinglin and he currently also performs as the Co-Chairman of the Company. The Board believes that vesting the roles of both the Co-Chairman and the CEO 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.

Save as those mentioned above, in the opinion of the Directors, the Company has met the code provisions set out in the Former CG Code and the New CG Code for the first half of 2012.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 9 April 2010 with written terms of reference in compliance with the Former CG Code and was revised on 30 March 2012 to comply with the New CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao 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 unaudited interim financial statements of the Group for the six months ended 30 June 2012 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.

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

Hong Kong, 21 August 2012

CONDENSED CONSOLIDATED INCOME STATEMENT

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

	Note	(Unaudited) For the six months ended 30 June **2012** ***HKD'000***	2011 *HKD'000*
Revenue	11	**365,659**	304,998
Cost of sales		**(221,788)**	(164,282)
Gross profit		**143,871**	140,716
Other gains – net	11	**152**	4,124
Selling and marketing costs		**(18,270)**	(14,191)
Research and development expenses		**(33,279)**	(25,677)
Administrative expenses		**(46,813)**	(50,684)
Operating profit		**45,661**	54,288
Finance income	14	**6,588**	12,158
Finance costs	14	**(804)**	(26)
Finance income – net	14	**5,784**	12,132
Profit before income tax	12	**51,445**	66,420
Income tax expenses	15	**(8,256)**	(16,975)
Profit for the period		**43,189**	49,445
Profit attributable to:			
Equity holders of the Company		**43,189**	49,445
Earnings per share for profit attributable to equity holders of the Company			
(HKD per share)			
– Basic	17	**0.05**	0.06
– Diluted	17	**0.05**	0.06

The notes on pages 32 to 54 are an integral part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note	**As at 30 June 2012 (Unaudited) *HKD'000***	As at 31 December 2011 (Audited) *HKD'000*
ASSETS			
Non-current assets			
Land use right		**29,053**	29,541
Property, plant and equipment	6	**316,658**	240,091
Intangible assets		**394**	500
Deferred income tax assets		**3,331**	4,019
		349,436	274,151
Current assets			
Inventories		**137,661**	115,450
Trade and other receivables	7	**246,064**	294,523
Pledged bank deposits		**117,028**	66,253
Term deposits with initial term of over three months		**176,226**	50,700
Cash and cash equivalents		**579,123**	768,643
		1,256,102	1,295,569
Total assets		**1,605,538**	1,569,720
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital	8	**7,748**	8,000
Reserves		**1,340,511**	1,361,894
Total equity		**1,348,259**	1,369,894

	Note	As at 30 June 2012 (Unaudited) HKD'000	As at 31 December 2011 (Audited) HKD'000
LIABILITIES			
Current liabilities			
Bank borrowings		**60,805**	–
Trade and other payables	10	**184,501**	175,545
Current income tax liabilities		**11,973**	24,281
		257,279	199,826
Total liabilities		**257,279**	199,826
Total equity and liabilities		**1,605,538**	1,569,720
Net current assets		**998,823**	1,095,743
Total assets less current liabilities		**1,348,259**	1,369,894

Na Qinglin
Director

Tam Man Chi
Director

The notes on pages 32 to 54 are an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited) For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Profit for the period	**43,189**	49,445
Other comprehensive income		
Currency translation differences	**(8,900)**	14,324
Total comprehensive income for the period	**34,289**	63,769
Total comprehensive income attributable to:		
Equity holders of the Company	**34,289**	63,769

The notes on pages 32 to 54 are an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Unaudited				
	Attributable to equity holders of the Company				
	Share capital	**Share premium**	**Other reserves** *(Note 9)*	**Retained earnings**	**Total equity**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Balance at 1 January 2011	8,331	1,048,893	(23,881)	215,999	1,249,342
Comprehensive income					
Profit for the period	–	–	–	49,445	49,445
Other comprehensive income					
Currency translation differences	–	–	14,324	–	14,324
Total other comprehensive income	–	–	14,324	–	14,324
Total comprehensive income	–	–	14,324	49,445	63,769
Share option scheme – value of services *(Note 20)*	–	–	21,213	–	21,213
Repurchase and cancellation of shares	(70)	(18,014)	–	–	(18,084)
Balance at 30 June 2011	8,261	1,030,879	11,656	265,444	1,316,240

	Unaudited				
	Attributable to equity holders of the Company				
	Share capital	Share premium	Other reserves *(Note 9)*	Retained earnings	Total equity
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Balance at 1 January 2012	**8,000**	**975,112**	**37,665**	**349,117**	**1,369,894**
Comprehensive income					
Profit for the period	–	–	–	**43,189**	**43,189**
Other comprehensive income					
Currency translation differences	–	–	**(8,900)**	–	**(8,900)**
Total other comprehensive income	–	–	**(8,900)**	**43,189**	**34,289**
Total comprehensive income	–	–	**(8,900)**	**43,189**	**34,289**
Dividend paid		–	–	**(23,906)**	**(23,906)**
Share option scheme – value of services *(Note 20)*	–	–	**14,492**	–	**14,492**
Repurchase and cancellation of shares	**(252)**	**(46,258)**	**252**	**(252)**	**(46,510)**
Balance at 30 June 2012	**7,748**	**928,854**	**43,509**	**368,148**	**1,348,259**

The notes on pages 32 to 54 are an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Unaudited For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Net cash from operating activities	**40,210**	11,650
Net cash (used in)/from investing activities	**(218,070)**	53,575
Net cash (used in)/from financing activities	**(9,398)**	21,302
Net increase in cash and cash equivalents	**(187,258)**	86,527
Cash and cash equivalents at the beginning of the period	**768,643**	507,812
Exchange difference	**(2,262)**	908
Cash and cash equivalents at the end of the period	**579,123**	595,247

The notes on pages 32 to 54 are an integral part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION

(a) General information

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 SEHK since 29 April 2010. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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 networking systems (the "Listing Business").

These interim condensed consolidated financial statements are presented in HK dollars, unless otherwise stated. This interim condensed consolidated financial statements were approved for issue on 21 August 2012.

These interim condensed consolidated financial statements are not audited or reviewed by the Company's auditor but have been reviewed by the Company's Audit Committee.

(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 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 HKFRS 3 (Revised) "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 interim condensed consolidated financial statements of the Group are presented using the carrying values of the Listing Business controlled by the Company.

2 **BASIS OF PREPARATION**

These interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with HKFRSs.

3 **ACCOUNTING POLICIES**

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements, except for the adoption of the standards, amendments and interpretation issued by Hong Kong Institute of Certified Public Accountants mandatory for annual periods beginning 1 January 2012. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's result of operations or financial position.

Exceptional items are disclosed and described separately in the financial information where it is necessary to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

4 **ESTIMATES**

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

5. SEGMENT REPORTING

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, based on 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. Therefore, the CODM considers that the Group has only one single operating segment and no segment information was disclosed for the six months ended 30 June 2012 and 2011.

All the reported revenues from sales of goods were made to external customers for the six months ended 30 June 2012 and 2011.

(a) Revenue from external customers in the PRC, Europe, North America and other Asia countries excluding the PRC is as follows:

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
The PRC	**133,526**	166,366
Europe	**104,409**	68,621
North America	**25,785**	21,083
Other Asia countries excluding the PRC	**101,939**	48,928
	365,659	304,998

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2012 and 31 December 2011 are as follows:

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
The PRC	**345,988**	270,015
Hong Kong	**117**	117
	346,105	270,132

6. PROPERTY, PLANT AND EQUIPMENT

	Machinery	Motor vehicles	Furniture, fitting & equipment	Construction in progress	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
At 1 January 2011					
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
Six months ended 30 June 2011					
Opening net book amount	4,593	894	66,288	10,485	82,260
Additions	14,484	–	32,266	73,370	120,120
Disposal	–	–	(8)	–	(8)
Depreciation	(1,415)	(116)	(9,518)	–	(11,049)
Exchange difference	248	20	1,784	1,037	3,089
Closing net book amount	17,910	798	90,812	84,892	194,412
At 30 June 2011					
Cost	40,148	1,709	177,241	84,892	303,990
Accumulated depreciation	(22,238)	(911)	(86,429)	–	(109,578)
Net book amount	17,910	798	90,812	84,892	194,412
At 1 January 2012					
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**
Six months ended 30 June 2012					
Opening net book amount	**16,764**	**716**	**95,910**	**126,701**	**240,091**
Additions	**–**	**–**	**20,721**	**71,719**	**92,440**
Depreciation	**(1,031)**	**(102)**	**(13,139)**	**–**	**(14,272)**
Exchange difference	**(91)**	**(4)**	**(556)**	**(950)**	**(1,601)**
Closing net book amount	**15,642**	**610**	**102,936**	**197,470**	**316,658**
At 30 June 2012					
Cost	**40,952**	**1,743**	**216,005**	**197,470**	**456,170**
Accumulated depreciation	**(25,310)**	**(1,133)**	**(113,069)**	**–**	**(139,512)**
Net book amount	**15,642**	**610**	**102,936**	**197,470**	**316,658**

7. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Trade receivables *(a)*	**196,221**	228,862
Less: provision for impairment of receivables	**(1,098)**	(1,346)
Trade receivables – net	**195,123**	227,516
Amounts due from related parties	**42**	42
Bills receivables *(b)*	**43,719**	60,148
Prepayments	**1,651**	2,171
Interest receivables	**2,698**	1,671
Other receivables	**2,831**	2,975
	246,064	294,523

(a) The credit period generally granted to customers is from 30 to 105 days. The ageing analysis of trade receivables is as follows:

Trade receivables	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Within 30 days	**71,125**	72,933
31 to 60 days	**45,373**	68,128
61 to 90 days	**44,681**	42,391
91 to 180 days	**32,233**	40,701
181 to 365 days	**2,493**	795
Over 365 days	**358**	3,956
	196,263	228,904

(b) Bills receivables are with maturity dates between 30 and 180 days. The ageing analysis of bills receivables is as follows:

Bills receivables	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Within 30 days	**12,319**	7,769
31 to 90 days	**18,982**	24,951
91 to 180 days	**12,418**	27,428
	43,719	60,148

8. SHARE CAPITAL

	Authorized share capital – ordinary shares of par value of HKD0.01 each	
	Number of shares	***HKD***
As at 30 June 2011 and 30 June 2012	**10,000,000,000**	**100,000,000**

	Issued and full paid up – ordinary shares of par value of HKD0.01 each	
	Number of shares	***HKD'000***
As at 1 January 2011	833,095,240	8,331
Repurchase and cancellation of shares (a)	(6,970,000)	(70)
As at 30 June 2011	826,125,240	8,261
As at 1 January 2012	**799,987,240**	**8,000**
Repurchase and cancellation of shares (b)	**(25,143,000)**	**(252)**
As at 30 June 2012	**774,844,240**	**7,748**

(a) During the six month ended 30 June 2011, the Company repurchased and cancelled 6,970,000 ordinary shares.

(b) During the six month ended 30 June 2012, the Company repurchased and cancelled 25,143,000 ordinary shares.

9. OTHER RESERVES

	Capital redemption reserve	Share-based compensation	Capital reserve arising from Reorganization	Currency translation reserve	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Balance at 1 January 2011	–	33,223	(85,421)	28,317	(23,881)
Share option scheme – value of services *(Note 20)*	–	21,213	–	–	21,213
Currency translation differences	–	–	–	14,324	14,324
Balance at 30 June 2011	–	54,436	(85,421)	42,641	11,656
Balance at 1 January 2012	**331**	**61,087**	**(85,421)**	**61,668**	**37,665**
Share option scheme – value of services *(Note 20)*	**–**	**14,492**	**–**	**–**	**14,492**
Repurchase and cancellation of shares	**252**	**–**	**–**	**–**	**252**
Currency translation differences	**–**	**–**	**–**	**(8,900)**	**(8,900)**
Balance at 30 June 2012	**583**	**75,579**	**(85,421)**	**52,768**	**43,509**

10. TRADE AND OTHER PAYABLES

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Trade payables (a)	**110,602**	80,108
Bills payables (b)	**27,303**	37,944
Accrued expenses	**14,068**	14,216
Payroll payable	**15,538**	18,775
Other payables	**16,554**	23,720
Advances from customers	**436**	295
Other taxes payable	**–**	487
	184,501	175,545

(a) The ageing analysis of trade payables is as follows:

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Within 30 days	**36,404**	40,898
31 days to 60 days	**22,827**	16,221
61 days to 180 days	**46,573**	18,592
181 days to 365 days	**4,103**	724
Over 365 days	**695**	3,673
	110,602	80,108

(b) Bills payables are with maturity dates between 30 and 180 days. The ageing analysis of bills payables is as follows:

Bills payables	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Within 30 days	**5,164**	6,945
31 to 90 days	**9,861**	13,222
91 to 180 days	**12,278**	17,777
	27,303	37,944

11. REVENUE AND OTHER GAINS

Revenue consists of sales of optic networking subcomponents, components, modules and subsystem. Revenue and other gains recognized during the six months ended 30 June 2012 and 2011 are as follows:

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Revenue		
Sales of goods	**365,659**	304,998
Other gains – net		
Government grants	**110**	3,688
Gain arising from sales of scrapped or surplus raw materials	**42**	370
Gain on disposal of property, plant and equipment, net	**–**	12
Others	**–**	54
	152	4,124
Total	**365,811**	309,122

12. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after crediting and charging the following:

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**94,405**	66,432
Share option expenses		
– For options granted to directors and employees *(Note 13)*	**14,492**	21,213
Raw materials consumed	**147,407**	133,150
Changes in inventories of finished goods and work in progress	**14,833**	(7,596)
Depreciation	**14,272**	11,049
Amortisation	**429**	415
Write back of impairment provision for doubtful receivables	**(328)**	(33)

13. STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Salaries, bonus and other welfares	**89,524**	62,522
Pension – defined contribution plans	**4,881**	3,910
Share options granted to directors and employees *(Note 12)*	**14,492**	21,213
	108,897	87,645

14. FINANCE INCOME – NET

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Finance income		
– Interest income	**6,588**	7,558
– Net exchange gain	**–**	4,600
Finance costs		
– Interest expenses on bank borrowings	**(488)**	(26)
– Net exchange loss	**(316)**	–
Finance income – net	**5,784**	12,132

15. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax *(b)*	**3,152**	–
– PRC enterprise income tax *(c)*	**4,435**	19,235
Total current income tax	**7,587**	19,235
Deferred income tax	**669**	(2,260)
Income tax expenses	**8,256**	16,975

(a) The Company and O-Net BVI are not subject to profits tax in their jurisdiction.

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

(c) 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.

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.

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 at the end of 2011. It is entitled to a concessionary PRC EIT tax rate of 15% for a period of 3 years from 2011 to 2013.

As the outcome of the application for qualification as a High and New Technology Enterprise was uncertain during the six months ended 30 June 2011, the management considered the enacted tax rate applicable to O-Net Shenzhen was 24% for the six months ended 30 June 2011.

16. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2012 (30 June 2011: Nil).

17. EARNINGS PER SHARE

(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.

	For the six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company for the six months (HKD'000)	**43,189**	49,445
Weighted average number of ordinary shares in issue (thousands)	**795,739**	832,832
Basic EPS (HKD per share)	**0.05**	0.06

17. EARNINGS PER SHARE (Continued)

(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).

	For the six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**43,189**	49,445
Weighted average number of ordinary shares in issue (thousands shares)	**795,739**	832,832
Adjustments for share options (thousands shares)	**–**	4,098
Weighted average number of ordinary shares for the calculation of diluted EPS (thousands shares)	**795,739**	836,930
Diluted EPS (HKD per share)	**0.05**	0.06

18. COMMITMENTS

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:

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Within one year	**4,240**	1,922
In the second to fifth year inclusive	**2,952**	944
After the fifth year	**1,275**	–
	8,467	2,866

Capital Commitments

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Capital expenditure contracted for but not provided	**37,892**	68,947

19. RELATED PARTY TRANSACTIONS

(a) Name and Relationship with Related Party

Name	Relationship
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.

(b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the six months ended 30 June 2012 and 2011:

Non-recurring transactions

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Sales of goods		
Butterfly Technology (Shenzhen) Ltd., Co.	**100**	–

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.

(c) Key management personnel remuneration

Key management includes directors (executive and non-executive), the company secretary, the head of sales department and research and development Department of O-Net Shenzhen. The compensation paid or payable to key management for the employee services is shown as below:

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Salaries, bonus and other welfares	**4,752**	3,891
Pension – defined contribution plans	**31**	26
Share option expenses	**5,530**	4,320
	10,313	8,237

20. 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 sharesholders of O-Net Holdings. Immediately after completion of the Reorganization, O-Net Trust held 2,728,359 shares in O-Net Holdings, representing 18.48% interest in O-Net Holdings, and would indirectly hold 9.41% of the issued share capital of the Company.

On 9 April 2010, O-Net Holdings, O-Net Cayman and O-Net Trust entered into a supplemental trust deed to the effect that O-Net Holdings became a party to the Share Option 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 has been completed on 9 April 2010.

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.

20 SHARE OPTION SCHEMES (Continued)

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

Type C: share options granted to two overseas sales distributors for their services as sales representative of the Group with graded vesting over 1 to 3 years. The exercise of options is dependent on an IPO of the Company before the 5th business day before the fourth anniversary of the date of the option agreement, or if there is no IPO before the 5th business day before the fourth anniversary of the date of the option agreement, the share options are exercisable on the 5th business day before the fourth anniversary of the date of the option agreement. The exercise price is zero.

The details of the Pre-IPO Share Option Scheme, taking into account the provisions of the New Option Agreements and the effect of the Share Option Migration, during the six months ended 30 June 2012 and 2011 are as below:

(i) Movement of number of share options granted under the Pre-IPO Share Option Scheme outstanding during the six months ended 30 June 2012 and 2011 are as follows:

	For the six months ended 30 June	
	2012	2011
Beginning of the period	**1,566,047**	1,983,783
Exercised	**(103,634)**	–
Forfeited	**(28,055)**	–
End of the period	**1,434,358**	1,983,783

(ii) Share options granted under the Pre-IPO Share Option Scheme outstanding as at 30 June 2012 and 31 December 2011 were as follows:

Number of share options granted to	**As at**		
	30 June 2012	31 December 2011	**Expiry date**
Directors	**96,794**	228,483	September 2015
Employees	**1,337,564**	1,337,564	April 2013 – October 2016
	1,434,358	1,566,047	

20 SHARE OPTION SCHEMES (Continued)

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

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 six months ended 30 June 2012, 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.

On 1 June 2012, the board of directors of the Company resolved to grant options totaling 33,851,000 to certain directors and employees of the Group in exchange for the cancellation of share options previously granted to them on 2 June 2010 and 13 January 2011. Further details of the grant and cancellation were set out in the announcement of the Company dated 1 June 2012.

Details of the share options are as follows:

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2012	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	6,000,000	HKD 3.128	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.

20 SHARE OPTION SCHEMES (Continued)

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

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2012	Exercise price	Vesting date
13 January 2011	Tranche 1: 5,521,000 Tranche 2: 5,613,000 Tranche 3: 5,734,000 Total: 16,868,000	800,000	HKD 5.374	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	HKD 1.870	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.

20 SHARE OPTION SCHEMES (Continued)

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

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2012	Exercise price	Vesting date
1 June 2012	Tranche 1: 14,929,000 Tranches 2: 1,360,000 Tranche 3: 4,390,000 Tranche 4: 13,172,000	33,851,000	HKD 1.91	Tranche 1 (for certain directors and employees): (i) vesting period of 40% commences on 2 June 2012; (ii) vesting period of another 20% commences on 2 June 2013; (iii) vesting period of another 20% commences on 2 June 2014; and (iv) vesting period of the remaining commences on 2 June 2015. Tranche 2 (for certain employees): (i) vesting period of 25% commences on 2 June 2012; (ii) vesting period of another 25% commences on 2 June 2013; (iii) vesting period of another 25% commences on 2 June 2014; and (iv) vesting period of the remaining commences on 2 June 2015. Tranche 3 (for certain employees): (i) vesting period of 1/3 commences on 2 June 2013; (ii) vesting period of another 1/3 commences on 2 June 2014; and (iii) vesting period of the remaining commences on 2 June 2015. Tranche 4 (for certain employees): (i) vesting period of 1/3 commences on 2 June 2012; (ii) vesting period of another 1/3 commences on 13 July 2012; and (iii) vesting period of the remaining commences on 13 July 2013.

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

20 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 six months ended 30 June 2012 and 2011 are as follows:

	For the six months ended	
	2012	2011
Beginning of the year	**46,550,000**	30,648,000
Granted	**33,851,000**	16,868,000
Cancelled	**(33,851,000)**	–
Forfeited	**(1,899,000)**	(1,424,000)
End of the year	**44,651,000**	46,092,000

(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

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.

20 SHARE OPTION SCHEMES (Continued)

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

(ii) (Continued)

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.

20 SHARE OPTION SCHEMES (Continued)

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

(ii) (Continued)

Granted on 1 June 2012:

Weighted average fair value			
Tranche 1	**Tranche 2**	**Tranche 3**	**Tranche 4**
HKD	*HKD*	*HKD*	*HKD*
0.53	0.55	0.59	0.47

The fair value of the share options granted on 1 June 2012 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.910, volatility of 64.598%, 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 0.731%. 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.

(iii) Share options outstanding as at 30 June 2012 and 31 December 2011 are as follows:

Number of share options granted to	**As at 30 June 2012**	As at 31 December 2011	**Expiry date**
Directors	**8,300,000**	9,300,000	8 April 2020
Employees	**36,351,000**	37,250,000	8 April 2020
	44,651,000	46,550,000	

21. SUBSEQUENT EVENT

Save for the repurchase of shares during the six months ended 30 June 2012, the Company further repurchased and cancelled 14,836,000 ordinary shares at a total consideration of HKD27,664,000 in July 2012.