O-Net Communications

ANNUAL REPORT 2012

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)

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

New Strategy

O-NET COMMUNICATION (GROUP) LIMITED

Diversify for Growth

For the past, O-Net has sustained a record high turnover. This outstanding achievement has been a reflection of our advanced technology platforms, vertically-integrated business model and solid customer base.

Our previous group strategy-Innovation, successfully support us through difficult times in the optical networking industry. However, no organization can afford to stand still. Improvements to the global economy lie just over the horizon and the time has come for a new strategy which will see us leverage our advantages and move to the next level.

This new strategy is called "Diversify for Growth"

To ensure O-Net's future prosperity in times of good fortune, diversification development will be a fundamental necessity. We need to embrace diversification now and begin developing new products in new business segments to ensure that we remain growth momentum in the future.

Today, the utilization of technology is accelerating forward at a breath-taking pace. Technology will feature prominently in this new strategy and strengthen our competitive advantages. Our Signature Innovation and Business Strategies will be fine-turned to reflect the new focus of "Diversify for Growth". With the new business division – 'Automation' and 'Fiber Laser', work on this new focus has already begun. Our employees at every level are ready to face a new challenge.

O-Net has had an excellent few years, and we are proud of our achievements and of the hard work which helped us in the last challenging years. By building a culture of diversification and redoubling our efforts within this framework, we aim to continue this success for years to come.

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

35 Cuijing Road
Pingshan New District
Shenzhen
China
Postal Code: 518118

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 the Nomination Committee)*
Mr. Tam Man Chi
Mr. Deng Xinping
Mr. Ong Chor Wei
Mr. Zhao Wei

REMUNERATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Mr. Na Qinglin *(Chairman of Corporate Governance Committee)*
Mr. Kung Sze Wai *(FAIA, FCPA)*
Mr. Chow Yu

AUTHORIZED REPRESENTATIVES

Mr. Na Qinglin
Mr. Kung Sze Wai *(FAIA, FCPA)*

COMPANY SECRETARY

Mr. Kung Sze Wai *(FAIA, FCPA)*

INVESTOR RELATIONS CONTACT

Mr. Kung Sze Wai *(FAIA, FCPA)*
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
755,549,240 shares (as at this report approval date)

Board Lot Size
1,000 shares

CAYMAN ISLANDS SHARE REGISTRAR

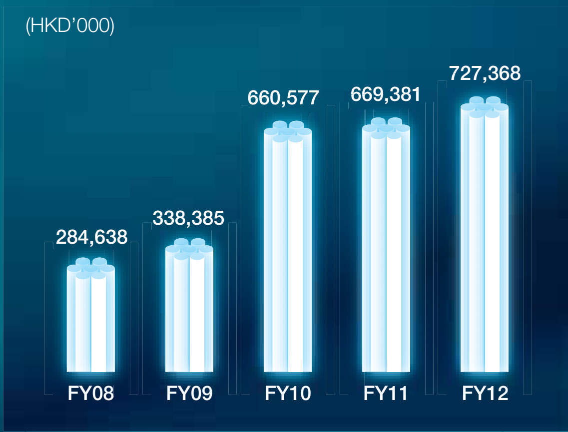
Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

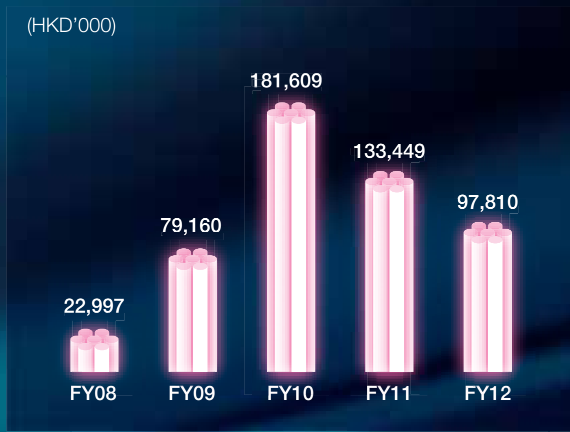
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

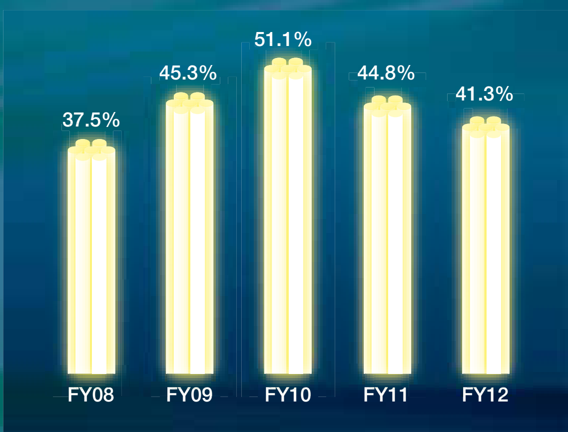
REVENUE



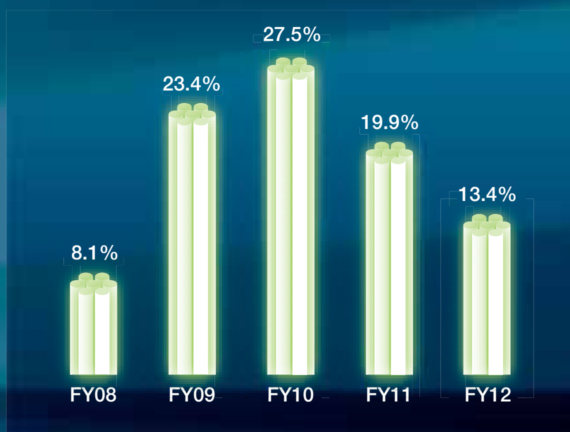
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



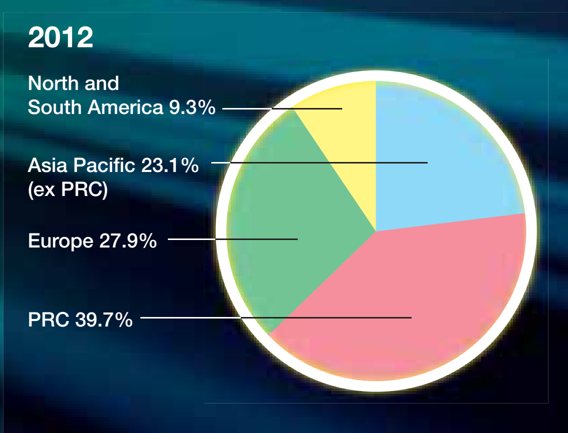
GROSS PROFIT MAGIN



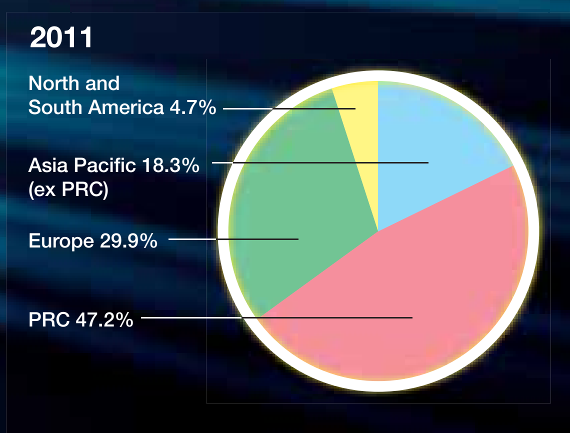
NET PROFIT MARGIN



REVENUE BY GEOGRAPHICAL SEGMENT



REVENUE BY GEOGRAPHICAL SEGMENT



Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report of O-Net Communication (Group) Limited and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 ("FY2012").

EXTERNAL ENVIRONMENT

During FY2012, the European debt crisis continued to adversely affect the world economy, while the recovery of the US economy remained slow and emerging economies registered only mild growth. The overall slowdown in the world economy has also had an impact on the global telecommunications market. In particular, certain domestic China carriers slowed down their capital expenditure. The growth of the Group, as one of the major players in the optical networking products industry for the global telecommunications market, has slowed down as a result.

Nevertheless, we maintain a positive outlook based on the long-term demand for next-generation optical network development. Besides, the growth in the demand for bandwidth driven by the pervasive distribution and use of video, photos, and all forms of digital information should increase the carriers' spending intended to provide more bandwidth capacity over time. With our advanced technology platforms, vertically-integrated business model and solid customer base, we continue with our efforts in pursuing active developments in our core business and driving our continuing success in the future.

CORPORATE DEVELOPMENT

In FY2012, we continued strategy of reinforcing our core competitive strengths in existing optical networking products business to accelerate our business development. Emphasis has been made on technology development, customer base expansion and operation efficiency improvement. Apart from the existing business, we also aim to capture growth opportunities by diversifying into new businesses. To this end, we had already started to explore the automation equipment market and research and development ("R&D") of fiber

laser products. We expect this strategic move will equip us to expand into new business sectors that could become new sources of income starting from 2013.

RESULTS HIGHLIGHTS AND STRONG CASH POSITION

Despite the absence of seasonality in the fourth quarter of FY2012, our revenues recorded at HKD727.4 million, representing 8.7% growth, for the financial year ended 31 December 2012. This was made possible through the invaluable effort and contributions of our management and staff. In regards to profit, net profit was down by 26.7% to HKD97.8 million due to the higher proportion of lower margin legacy products that were sold during the year plus the increase in R&D expenses as a result of setting up new R&D teams in the United States of America ("U.S.A.") and for new business divisions.

While the GAAP net profit declined, we still achieved a solid cash flow performance in the year under review. For the whole year, our operating cash inflow was HKD153.4 million. As a result, our cash position remained strong with more than HKD634.2 million in cash as at 31 December 2012.

DIVIDEND

To reward shareholders, the Board has recommended a final dividend of HKD0.03 per ordinary share in respect of FY2012, which is subject to shareholders' approval at the upcoming Annual General Meeting of the Company to be held on Tuesday, 7 May 2013.

COMMITMENT TO RESEARCH & DEVELOPMENT

R&D is of paramount importance to our future. We are strongly committed to strengthening our R&D capability so that we can deliver better product innovations, more quickly and in larger quantities for the global optical networking market. To this end, we launched a total of 263 new products into the optical networking market during FY2012.

In addition, we have set up a new R&D office in the U.S.A. for enhancing development capability in next generation products. This strategic initiative in the U.S.A. also helps facilitate our recruitment of overseas industry talent at a major source of technology innovation and seize future business opportunities in a timely fashion to generate our long term growth. Along with ongoing efforts of team building in all areas to strengthen our core R&D competence, we are poised to maintain our leadership position in the high-technology industry.

NEW MANUFACTURING PLANT

Work has progressed smoothly in the new manufacturing plant first announced in 2010. The factory building has been topped out and decoration works are to be completed in March 2013 with full operations within the second quarter of 2013.

The plant strengthens our foothold in the most strategic point of the automation production progress for the vertical integrated business model to maximize our profits and market shares in the optical networking products industry.

PROSPECTS

The global economic situation remains uncertain for 2013 which will likely affect the telecommunications market. The operating environment of our existing business remains challenging. Management is increasing its efforts to launch new products so as to strengthen our competitiveness and scope for growth. With the continued support from shareholders and dedication of the staff and management team, the management is confident to overcome these challenges as it has during the past few years.

Our new strategy is to maintain the stable growth of our core business in optical networking products industry, and to allocate sufficent resources to facilitate diversification within various selected market segments. To this end, through launching new products, and diversification, we are confident to achieve stable growth in 2013.

Furthermore, we are looking for investment opportunities in various selected industries with good cash yield and potential for long-term capital appreciation in order to enhance the corporate value and bring returns to the shareholders.

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. Because of this, we have been able to maintain a stable performance for FY2012. On behalf of the management, I would like to express our sincere gratitude and appreciation to our stakeholders as well as for the dedication and hard work of our entire staff.

Na Qinglin
Co-Chairman and Chief Executive Officer

Hong Kong, 11 March 2013

Management Discussion and Analysis

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 networking products to the leading telecommunications and data communications network system vendors.

INDUSTRY AND BUSINESS REVIEW

On the industry-wide level, the overall sales for optical networking products have been flat at USD1.6 billion per quarter for the first three quarters for FY2012 due to the global economic uncertainty leading the telecommunications and data network operators to spend cautiously. In addition, the absence of seasonality factor supporting in the fourth quarter plus the start of a new vendor managed inventory programme in the fourth quarter which shifting inventory from optical networking equipment makers to optical networking product suppliers, combine to create a short-term shortfall in optical networking product revenue. Consequently, the optical networking product revenue in FY2012 is expected to contract by 6.3% to USD6.3 billion compared with the forecast at the beginning of FY2012.

Despite the weak industry performance, the Group managed to gain market share and recorded moderate growth in the first three quarters of FY2012 while there had been a decline in the fourth quarter of FY2012. The revenue of HKD727.4 million was recorded in FY2012, representing 8.7% growth, as compared to HKD669.4 million for the year ended 31 December 2011 ("FY2011"). Although the revenue growth of the Group slowed down during the second half of FY2012, the Group started large volume of shipments of new products in the second half of FY2012. The gross profit margin of the second half of FY2012 therefore increased to 43.3% as compared to 39.3% in first half of FY2012. Nevertheless, as the Group continued to devote strong research and development ("R&D") efforts to its core business and the new business divisions, the net profit was HKD97.8 million, representing a decrease of about 26.7% as compared to that of FY2011.

FINANCIAL REVIEW

Revenue

Revenue in FY2012 which totaled HKD727.4 million, represents an increase of HKD58.0 million, or 8.7%, compared to that of HKD669.4 million in FY2011. This growth in revenue was attributable to moderate growth in revenue during the first three quarters which was more than enough to compensate for the decline in fourth quarter revenue.

The overseas market experienced a strong growth in revenue during the first three quarters in FY2012 thanks to: (i) gain in market shares in the U.S.A. and Europe; (ii) significant investments in next-generation optical networks and expansion of the optical networks in certain Asian countries; and (iii) starting large volume of shipments of new products to certain overseas customers in the second half of FY2012, even the overseas revenue declined in the fourth quarter as the global capital expenditure for the fourth quarter changed to be much more conservative. Consequently, overseas revenue increased by 24.0% to HKD438.6 million for FY2012, representing 60.3% of its total revenues.

In the domestic market, telecommunication network carriers imposed stringent policies on their capital expenditures throughout 2012. The Group, however, managed to achieve new product qualifications from major domestic customers, and started large volume of shipments of those new products, including next-generation products in the second half of FY2012 so that a steady revenue growth was recorded compared with the second half of last year. Even though the domestic market experienced a modest growth in revenue in the second half of FY2012, as compared with same period of FY2011 and also first half of FY2012, it is unable to surpass the decline in the first half of FY2012. As a result, domestic revenue of HKD288.8 million was recorded in FY2012, representing a drop of 8.6% compared with FY2011.

Gross Profit and Gross Profit Margin

Gross profit for FY2012 was HKD300.4 million, representing an increase of HKD0.6 million, or 0.2%, from the gross profit of HKD299.8 million in FY2011. The slightly improvement of gross profit was primarily due to a reduction in gross profit margin. Gross profit, as a percentage of total revenue or gross profit margin, dropped to 41.3% in FY2012 as compared to 44.8% in FY2011. Even though the Group had continued to launch high margin new products including next-generation products into the market during the year, the drop in gross profit margin was primarily due to a higher mix of relatively lower margin legacy products and the adoption of a competitive pricing strategy in 2012.

Other Gains

Other gains in FY2012 declined by 25.4% to HKD5.0 million, from HKD6.7 million in FY2011. This drop was primarily due to the decrease in government grants by HKD0.8 million, from HKD6.0 million in FY2011 to HKD5.2 million in FY2012 and the increase in loss on disposal of property, plant and equipment by HKD0.9 million in FY2012, while nil was recorded in FY2011.

Selling and Marketing Costs

Selling and marketing costs of HKD37.1 million in FY2012 represents an increase of HKD1.9 million, or 5.3%, compared to HKD35.3 million in FY2011. The increase in selling and marketing costs in FY2012 was primarily due to the rise in overall sales personnel staff costs, which was partly offset by the decrease in effective commission rate. In FY2012, the salary and share option costs were HKD7.5 million and HKD2.1 million respectively, representing an increase of 25.9% and 12.1% respectively compared with FY2011. The increase was primarily attributable to rising wages, increased headcount in our sales team and additional cost for replacement share options granted to our sales personnel.

Selling and marketing costs as a percentage of revenue decreased to 5.1% in FY2012 as compared to 5.3% in FY2011.The decrease was mainly attributable to the decrease in effective commission rate as explained below. We generally do not incur distributor commissions 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 4.2% in FY2012 and 5.2% in FY2011. 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 portion of the sales mix during the year.

Research and Development Expenses

In FY2012, R&D expenses increased by 43.6% to HKD73.1 million, from HKD50.9 million in FY2011. Meanwhile, R&D expenses as a percentage of revenues increased to 10.1% in FY2012 as compared to 7.6% in FY2011. This increase and the rise of its percentage of revenues were primarily attributable to stepping up our investments in R&D projects for new products and new business divisions, which includes hiring of new R&D engineers, purchasing of raw materials and fixed assets for the related R&D projects and paying service fee to R&D service providers. The rise in R&D expenses was also due to the increase in the overall R&D engineers cost during the year.

Raw material costs used by the R&D projects amounted to HKD24.0 million in FY2012, represents an increase of 21.2% from HKD19.8 million in FY2011. Meanwhile, depreciation of fixed assets in FY2012 amounted to HKD3.7 million, which is an increase of 54.2% given the corresponding figure of HKD2.4 million in FY2011. The increase of raw materials and fixed assets used for R&D projects was primarily attributable to the additional R&D projects for new products and new business divisions.

The salary and share option costs were HKD32.7 million and HKD5.4 million respectively. This equates to an increase of 60.3% and 17.4% when compared with last year. The increase was primarily attributable to rising wages, the additional cost for replacement share options granted to our R&D engineers and the increased hiring of R&D engineers including the R&D talents for new products and new business divisions.

Administrative Expenses

Administrative expenses in FY2012 were HKD93.4 million, which is 3.5% higher compared to HKD90.2 million in FY2011. The increase in administrative expenses in FY2012 was primarily attributable to the rising of salary, which was partly offset by the decrease in share option costs and low-value consumable costs. Administrative expenses as a percentage of revenues decreased to 12.8% during FY2012 as compared to 13.5% in FY2011, which is primarily attributable to our efforts in maintaining a similar cost level despite the revenue growth in FY2012.

Salary in FY2012 was HKD45.3 million and, which represents an increase of 16.5% compared with the corresponding figures in the previous year. This increase was primarily attributable to bolstering our efforts in hiring new staff.

Share option costs in FY2012 was HKD20.2 million, a decrease of 6% compared with HKD21.5 million in FY2011. The decrease was mainly due to the fact that most of the share option costs related to the options granted to our administrative staff were already fully amortized in the prior years, even there was an additional cost arose from the grant of replacement options in FY2012.

The decrease in low-value consumable cost by HKD1.5 million, from HKD4.8 million in FY2011 to HKD3.3 million in FY2012, is primarily attributable to the improvement in operating efficiency.

Finance Income

Net finance income for FY2012 amounted to HKD12.3 million, is a decrease of HKD11.8 million from HKD24.1 million in FY2011. The drop in net finance income was due to a decrease in foreign exchange gain. The foreign exchange gain was due to the appreciation of RMB. The decrease in foreign exchange gain of HKD10.6 million was primarily attributable to the fact that while most of our cash was held in RMB rather than the functional currency of the Company, the appreciation of RMB to USD changed from a vigorous gain in 2011 to a more modest gain in 2012.

Profit Before Tax and Profit Before Tax Margin

Profit before tax decreased by HKD40.1 million from HKD154.2million for FY2011 to HKD114.1 million for FY2012. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 23.0% for FY2011 to 15.7% for FY2012. The decrease in profit before tax and profit before tax margin for the year was primarily due to a decline in gross profit margin and an increase in certain 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 PRC EIT purpose.

Income tax expenses in FY2012 amounted to HKD16.3 million, represents a drop of HKD4.4 million, or 21.3% from the income tax expense of HKD20.7 million in FY2011. The drop in income tax expenses was primarily due to a decline in net profit before tax in FY2012.

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

In FY2012, profit attributable to equity holders decreased by HKD35.6 million to HKD97.8 million, as compared to HKD133.4 million in FY2011. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, decreased from 19.9% in FY2011 to 13.4% in FY2012. The decrease in profit attributable to equity holders and net profit margin for FY2012 was primarily due to the decrease in gross profit margin and an increase in certain operating 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 that compare our financial performance with most of the comparable companies listed on NASDAQ in the U.S.A., 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 end 2012 HKD'000	Year end 2011 HKD'000
Adjustment to measure non-GAAP gross profit		
Gross Profit	**300,439**	299,836
Adjustment related to cost of sales		
Provision for excess and obsolete inventory	**1,842**	2,820
Non-GAAP Gross Profit	**302,281**	302,656
Adjustment to measure non-GAAP net profit		
Net profit	**97,810**	133,449
Adjustment related to cost of sales		
Provision for excess and obsolete inventory	**1,842**	2,820
Adjustments to measure to operating expenses		
Share options granted to Directors, employees and sales distributors	**27,622**	27,864
Amortization of intangible assets	**871**	871
Non-GAAP Net Profit	**128,145**	165,004
Non-GAAP EPS		
– Basic	**0.16**	0.20
– Diluted	**0.16**	0.20
Gross Profit Margin	**41.3%**	44.8%
Non-GAAP Gross Profit Margin	**41.6%**	45.2%
Net Profit Margin	**13.4%**	19.9%
Non-GAAP Net Profit Margin	**17.6%**	24.7%

Non-GAAP Profit Analysis

Non-GAAP net profit for FY2012 was HKD128.1 million, or HKD0.16 per share, compared to non-GAAP net profit of HKD165.0 million, or HKD0.20 per share, reported for FY2011. Non-GAAP results for FY2012 exclude HKD1.8 million in provision for excess and obsolete inventory, HKD27.6 million in share options granted to Directors and employees expenses and HKD0.9 million in amortization of intangible assets. 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.

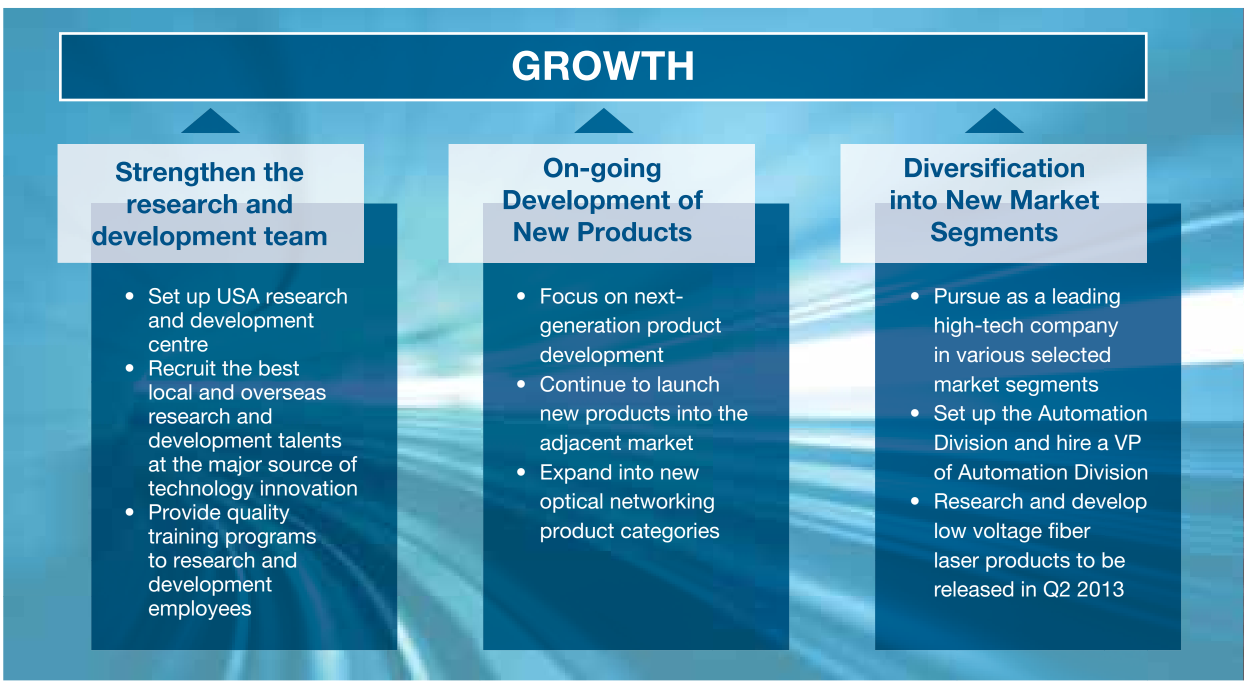
FUTURE PROSPECTS

Global economic conditions remain uncertain in 2013 which is likely to affect the telecommunications market. To this end, the Group's new strategy is to maintain the stable growth of its core business in optical networking products industry, and to allocate sufficient resources for diversification into various selected market segments. Through launching new products, and diversification, the Group is confident it can achieve stable growth in 2013.

Products Development and Maintain Stable Business Growth

The Group will continue to escalate efforts to launch new products so as to strengthen its competitiveness and to improve its scope for growth. After careful analysis of market changes and customer demand by leveraging the trend of the global optical networking products industry, the Group will continue to deploy more resources to developing new optical networking products. Through launching a steady stream of new products, the Group will strive to enhance its market share and maintain stable business growth. Besides, the Group will continue to allocate more resources to strengthen its R&D capability for next-generation products development. Leveraging its R&D strategy, the Group will aim to create new growth

Growth Strategy



drivers through launching next-generation products in a timely manner and boosting competitive advantages within the respective products series while providing customers with top quality next-generation products.

Strengthen Development in new business divisions

The Group is adopting a growth strategy characterised by diversification and continues to develop and deploy new technologies and their applications to meet market demand and trends. Regarding the application of automation technology, the Group received its first order by the automation division on December 2012, and the tailor-made automation equipment was successfully developed and delivered to the customer on January 2013. Besides, emphasis would also continue on fiber laser technology application. The 10 watts and 20 watts fiber laser products would be launched in March 2013. The Group believes that with the success of the first order in the automation division and the debut of fiber laser products, the new business divisions could become new sources of income and drive our continued success in the future.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the Company's issued share capital was approximately HKD7.6 million divided into 755,549,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,388.7 million (31 December 2011: HKD1,369.9 million). The Group had current assets of HKD1,096.2 million and current liabilities of HKD199.9 million and the current ratio was 5.5 times as at 31 December 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) and gearing ratio (calculated as total borrowings over shareholders' equity) was not applicable as at 31 December 2012 and 2011 since the Group did not have any borrowing.

As of 31 December 2012, the Group had cash and cash equivalents of approximately HKD558.9 million (31 December 2011: HKD768.6 million). The significant decrease was due to the capital expenditure on property, plant and equipment 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 2012, the Company repurchased and cancelled its own shares at a total consideration of HKD81.8 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 31 December 2012, HKD12.7 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 HKD2.9 million as guarantee for bills payables due to raw material suppliers.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

During the year ended 31 December 2012, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2012, the Group had contractual capital commitments of approximately HKD118.3 million (31 December 2011: HKD68.9 million). As of 31 December 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

During the year ended 31 December 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 HKD237.9 million (31 December 2011: HKD174.7 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 BENEFIT

As at 31 December 2012, the Group had a total of 2,350 employees (31 December 2011: 1,970). The Group's staff costs (including Directors' fees) amounted to HKD226.0 million (31 December 2011: HKD177.6 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 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 2012, options in aggregate of 35,851,000 were granted to 3 Directors and 307 employees of the Group (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.

FINAL DIVIDEND

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 7 May 2013 ("2013 AGM") a final dividend of HKD0.03 (2011: HKD0.03) per share to be paid on Tuesday, 21 May 2013 to those shareholders whose names appear on the register of members of the Company on Monday, 13 May 2013. The final dividend will amount to approximately HKD22,666,000 (2011: HKD24,000,000).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Friday, 3 May 2013 to Tuesday, 7 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2013 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, 2 May 2013.

For determining the entitlement of the shareholders to the final dividend, the register of members of the Company will be closed on Monday, 13 May 2013, no transfer of shares will be registered on that date. In order to qualify for the proposed final dividend, 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 for registration not later than 4:30 p.m. on Friday, 10 May 2013.

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 2012.

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

As at 31 December 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

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. Na Qinglin

Mr. Na, aged 46, is the Co-Chairman, Chief Executive Officer and an executive Director 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 the chairman of each of the nomination committee ("Nomination Committee") and corporate governance committee ("CG Committee") and a member of the remuneration committee ("Remuneration Committee") of the Company. Mr. Na is also a director of each of O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen"), O-Net Communications (Hong Kong) Limited ("O-Net Hong Kong") and O-Net Communications Holdings Limited ("O-Net BVI"), all of which are subsidiaries of the Company. He is responsible for the Company's overall corporate strategy, management team development and daily operations.

Mr. Na is a director of Hisense Broadband Multimedia Technologies, Ltd., the holding company of Qingdao Hisense Broadband Multimedia Technologies Co., Ltd., which is one of the customers of the Group, since 20 July 2012. 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.

NON-EXECUTIVE DIRECTORS

Mr. Tam Man Chi

Mr. Tam, aged 65, is the Co-Chairman and a non-executive Director of the Company. He was appointed as a 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 BVI, O-Net Hong Kong and O-Net Shenzhen. 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 Technology Co., Limited ("Shenzhen Kaifa") (Stock Code: 000021), a company listed on the Shenzhen Stock Exchange. He started working for Shenzhen Kaifa as a director since 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 is also an executive director of Great Wall Technology Company Limited (Stock Code: 74), a company listed on the The Stock Exchange of Hong Kong Limited ("SEHK"), since March 1998. From 1999 to September 2012, Mr. Tam served as 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) ("China Great Wall"), a company listed on the Shenzhen Stock Exchange. From October 2009 to November 2012, Mr. Tam also served as a non-executive director of TPV Technology Limited (Stock Code: 903), a company listed on the SEHK. 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 46, 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 Shenzhen. 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, and has been in such a capacity since July 2005. Mr. Chen is currently the vice-president of Shenzhen Kaifa. 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 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 52, 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 Shenzhen. 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 and thereafter re-designated as a non-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 DIRECTORS

Mr. Deng Xinping

Mr. Deng, aged 46, is an independent non-executive Director of the Company. He was appointed as a Director of the Company on 9 April 2010. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

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, in July 1995, 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., all of which are wholly-owned subsidiaries of FEnet Co. Ltd., from 2001 to July 2007, Mr. Deng also served as a vice president of Longtop Financials Technologies, a company listed on the New York Stock Exchange, from 1 July 2007 to 30 June 2012. Mr. Deng did not hold any directorship in other listed public companies in the past three years.

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. Ong Chor Wei

Mr. Ong, aged 43, is an independent non-executive Director of the Company. He was appointed as a Director of the Company on 9 April 2010. Mr. Ong is the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee.

Mr. Ong has over 21 years' 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, a company listed on the Singapore Exchange Securities Trading Limited. Mr. Ong is also currently an independent 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 Jets Technics International Holdings Limited, a company which was listed on the Singapore Exchange Securities Trading Limited. 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.

Mr. Zhao Wei

Mr. Zhao, aged 47, was appointed as an independent non-executive Director of the Company on 10 August 2012. He is a member of each of Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Zhao has over 20 years' solid experience in IT services field, especially in the area of computer software. He is currently an executive president of 金陵華軟投資基金 (China Soft Capital Investment Fund), since 2013. Mr. Zhao was a senior vice president of Longtop Financial Technologies Limited, a company listed on the New York Stock Exchange, from 2005 to 2010. Save as aforesaid, Mr. Zhao did not hold any directorship in other listed companies in the past three years.

Mr. Zhao graduated from Peking University with a bachelor and master degree on computer science with a major of software engineering in 1988 and 1991 respectively.

SENIOR MANAGEMENT

Dr. Hua Yimin, Ben

Dr. Hua, aged 51, 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 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 over 18 years' 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 the Group, Dr. Hua held senior positions at various companies in the U.S.A., 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, U.S.A. and a one-year post-doctoral research at the Telecommunication Research Labs of the University of Alberta, Canada.

Dr. Liu Qing Zhong

Dr. Liu, aged 54, is the Vice President of Research and Development of the Group and Head of U.S.A. research and development centre, where he is in charge of the operation and new product development for next-generation optical network. He joined the Group on 30 July 2012.

Dr. Liu has over 25 years' solid experience in research and development as well as business development, which he attained from his work in optical telecommunication industry. His extensive knowledge and expertise are also acquired from his preceding jobs in several technology corporations in U.S.A. and Canada. Prior to joining the Group, Dr. Liu held senior positions at various optical telecommunication companies, he was responsible for product development, manufacturing and business development of high-speed optical components and modules.

Dr. Liu holds a bachelor's degree in Physics and a PhD. in Electrical Engineering from Nankai University, China and Technical University of Denmark, Denmark, respectively. He had also conducted post-doctoral research at University of British Columbia, Canada. He is a senior member of Institute of Electrical and Electronics Engineers.

Mr. Tan Boon Thong

Ms. Tan, aged 44, is the Vice President of Sales and Marketing of the Group. He has been leading the Group's international sales division since 1 February 2002, and the global sales and marketing division since 18 January 2004. Prior to joining the Group, Mr. Tan worked in a project engineering capacity at Shenzhen Kaifa. 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.

Dr. Shen Fei

Dr. Shen, aged 34, is the Vice President of Automation Division of the Group. He joined the Group on 1 July 2012. Dr. Shen is responsible for overseeing new product development, manufacturing and business development of Automation Division and leading our team to develop automatic production equipments and advanced vision inspection systems.

Dr. Shen has over 10 years' extensive experience in research and development as well as product marketing in automation industry, with his expertise in vision inspection and intelligent machine learning. Prior to joining the Group, he held a senior position at the advanced engineering center of Singapore Technologies Engineering Ltd, where he headed up the business and product development of vision inspection and intelligent machine learning solutions.

Dr. Shen holds a PhD in Computer Vision and Machine Learning from Nanyang Technological University, Singapore and a bachelor degree in Computer Science from University of Science and Technology of China under Special Class for Gifted Young program.

Dr. Yu Aihua

Dr. Yu, aged 55, is the Vice President of Research and Development – Modules and Subsystems of the Group. He joined the Group 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 of the Group. He has been involved in the optical communications industry since 1982 when he studied at Nanjing Institute of Technology, which is currently known as Southeast University, specializing in electrical engineering.

Dr. Yu brings a wealth of experience to O-Net. Prior to joining the Group, 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.

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

Mr. Kung Sze Wai

Mr. Kung, aged 40, is the Vice President of Finance and Company Secretary of the Group. He is a member of the CG Committee. He is responsible for the financial, accounting and company secretarial functions as well as investor relations and corporate finance functions of the Group. He has over 14 years' experience in finance, accounting, auditing, taxation and company secretarial services as well as over 9 years' experience in investor relations and corporate finance which he gained from working in the companies listed with the SEHK. Prior to joining the Group, Mr. Kung held various positions including chief financial officer and company secretary in several companies listed with the SEHK, in addition to being executive director and authorized representative for a company that is 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 a Fellow of the Association of International Accounts and the Hong Kong Institute of Certified Public Accountants.

Dr. Yi Zhiming

Dr. Yi, aged 47, is the Senior Sales Director of the Group. He joined the Group on 3 September 2012. He has been leading the sales and marketing of the Group's optical component coating and coating processing products. Prior to joining the Group, Dr. Yi held senior positions of research and development, production and sales in various optical and electronic technology companies including leading the development, production and sales of optical component coating products. He had over fifteen years of experience in the optical and electronic industry.

Dr. Yi holds a master's degree in Engineering Optics from Beijing Institute of Technology and conducted the research of optical films and design and research of optical systems. Dr. Yi also holds a doctoral degree in Military Optics from Beijing Institute of Technology and conducted the design and research of new type optical component (binary optical component).

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 (the "Former 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"), which came into effective on 1 January 2005 and was revised and renamed as Corporate Governance Code and Corporate Governance Report (the "New CG Code") with effect from 1 April 2012.

During the year ended 31 December 2012, the Company was in compliance with 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 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 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 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 during the year ended 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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 throughout the year.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for the leadership and control of the Company, and 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 management was delegated the authority and responsibility by the Board for the daily management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

The non-executive Directors and independent non-executive Directors, who combine to offer diverse industry expertise, serve the important function of providing relevant advice 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 seven Directors including an executive Director, three non-executive Directors and three independent non-executive 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

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 Former CG Code and the New CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors are set out on pages 19 to 23 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.

Directors' Training

According to the code provision A.6.5 of the New CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2012 to the Company. In addition to their own participation in professional training, relevant training was provided to the Directors by the Company in the financial year ended 31 December 2012.

The Company has also continuously updated Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

At the Board meeting held on 30 March 2012, briefing was given to the Directors (except Mr. Zhao Wei who was appointed as an independent non-executive Director of the Company on 10 August 2012) on the amendments to the Listing Rules relating to the New CG Code and associated Listing Rules, which came into effect on 1 January 2012 or 1 April 2012.

The individual training record of each of the Directors received for the year ended 31 December 2012 is summarized below:–

Name of Director	(i) Attending or participating in seminars/ workshops; or (ii) working in technical committee relevant to the Group's business/directors' duties; or (iii) participating in the briefing on the amendments to the Listing Rules relating to corporate governance matters and associated Listing Rules
Mr. Na Qinglin	√
Mr. Tam Man Chi	√
Mr. Chen Zhujiang	√
Mr. Huang Bin	√
Mr. Deng Xinping	√
Mr. Ong Chor Wei	√
Mr. Zhao Wei	√

Group Co-Chairman and Chief Executive

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, 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 of the independent non-executive Directors 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 Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance. During the regular meetings of the Board, the Board reviewed the operation and financial performance and reviewed and approved the annual and interim results.

During the year ended 31 December 2012, the Board held 8 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
Mr. Na Qingling	8/8
Mr. Xue Yahong *	3/4
Mr. Tam Man Chi	8/8
Mr. Chen Zhujiang	8/8
Mr. Huang Bin	8/8
Mr. Ong Chor Wei	8/8
Mr. Bai Xiaoshu +	7/7
Mr. Deng Xingpin	8/8
Mr. Zhao Wei #	1/1

* Mr. Xue Yahong resigned as an executive Director of the Company on 1 April 2012, and 4 Board meetings were held before his resignation.

+ Mr. Bai Xiaoshu resigned as an independent non-executive Director of the Company on 7 August 2012, and 7 Board meetings were held before his resignation.

Mr. Zhao Wei was appointed as an independent non-executive Director of the Company on 10 August 2012, and 1 Board meeting was held after his appointment.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member 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.

General Meetings

During the year ended 31 December 2012, 2 general meetings of the Company were held, being the 2012 annual general meeting of the Company held on 8 May 2012 ("2012 AGM") and the extraordinary general meeting of the Company held on 6 July 2012.

Name of Director	Number of attendance
Mr. Na Qingling	2/2
Mr. Xue Yahong *	0/0
Mr. Tam Man Chi	2/2
Mr. Chen Zhujiang	2/2
Mr. Huang Bin	2/2
Mr. Ong Chor Wei	2/2
Mr. Bai Xiaoshu +	2/2
Mr. Deng Xingpin	2/2
Mr. Zhao Wei #	0/0

* Mr. Xue Yahong resigned as an executive Director of the Company on 1 April 2012, and no general meeting was held before his resignation.

\+ Mr. Bai Xiaoshu resigned as an independent non-executive Director of the Company on 7 August 2012, and 2 general meetings were held before his resignation.

\# Mr. Zhao Wei was appointed as an independent non-executive Director of the Company on 10 August 2012, and no general meeting was held after his appointment.

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. The Chairman of the Board and the chairmen of the Audit Committee, the Nomination Committee, the Remuneration Committee and the CG Committee attended the 2012 AGM and the special general meeting of the Company held on 6 July 2012 to answer questions and collect views of shareholders.

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 New CG Code of the Listing Rules:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Corporate Governance 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 Committee, Nomination Committee, and Remuneration Committee have been structured to include a majority of independent non-executive Directors. Details and reports of the committees are set out below.

Audit Committee

The Company established the Audit Committee with written terms of reference on 9 April 2010. The terms of reference of the Audit Committee is currently made available on the websites of the SEHK and the Company.

The Audit Committee currently comprises three members as follows:

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

Terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the New CG Code.

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 discusses with management the internal control system to ensure an effective internal control system is in place.

The Audit Committee is also responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditor; reviewing the external auditor's independence, the Group's financial and accounting policies and practices; reviewing the interim and annual reports and financial statements of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and internal control procedures.

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews 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 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 2012, the Audit Committee held 2 meetings:–

Name of Director	Number of attendance
Mr. Ong Chor Wei	2/2
Mr. Bai Xiaoshu +	1/1
Mr. Deng Xingping	2/2
Mr. Zhao Wei #	1/1

\+ Mr. Bai Xiaoshu ceased to be a member of the Audit Committee on 7 August 2012, and 1 Audit Committee's meeting was held before his cessation.

\# Mr. Zhao Wei was appointed as a member of the Audit Committee of the Company on 10 August 2012, and 1 Audit Committee's meeting was held after his appointment.

During the year ended 31 December 2012, the Audit Committee reviewed the annual and interim results of the Group, which were in opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference on 9 April 2010. The terms of reference of the Remuneration Committee is currently made available on the websites of the SEHK and the Company.

Terms of reference adopted by the Remuneration Committee are aligned with the code provisions set out in the New CG Code.

The Remuneration Committee is chaired by an independent non-executive Director of the Company. 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, the executive Directors and such other members of the executive management as it is designated to consider.

The Remuneration Committee shall also make recommendation to the Board on determining (i) the remuneration packages of each of the 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 (ii) the remuneration of non-executive Directors, and in consultation with the Chairman and/or Chief Executive Officer as appropriate.

The Remuneration Committee currently comprises five members as follows:

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

During the year ended 31 December 2012, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management.

Name of Director	Number of attendance
Mr. Deng Xingping	1/1
Mr. Tam Man Chi	1/1
Mr. Na Qinglin	1/1
Mr. Ong Chor Wei	1/1
Mr. Bai Xiaoshu +	1/1
Mr. Zhao Wei #	0/0

\+ Mr. Bai Xiaoshu ceased to be a member of the Remuneration Committee on 7 August 2012, and 1 Remuneration Committee's meeting was held before his cessation.

\# Mr. Zhao Wei was appointed as a member of the Remuneration Committee of the Company on 10 August 2012, and no Remuneration Committee's meeting was held after his appointment.

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management are set out in note 22 to the consolidated financial statements.

Nomination Committee

The Company established the Nomination Committee with written terms of reference on 9 April 2010. The terms of reference of the Nomination Committee is currently made available on the websites of the SEHK and the Company.

Terms of reference adopted by the Nomination Committee are aligned with the code provisions set out in the New CG Code.

The Nomination Committee is chaired by the Co-Chairman of the Board. The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and made recommendations on any proposed changes to the Board to complement the Group's strategy; to identify qualified individuals to become members of the Board; to assess the independence of the independent non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Co-Chairmen and the Chief Executive Officer.

The Nomination Committee currently comprises five members as follows:

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

During the year ended 31 December 2012, the Nomination Committee held 1 meeting to assess the independence of the independent non-executive Directors and to consider the re-election of Directors.

Name of Director	Number of attendance
Mr. Na Qinglin	1/1
Mr. Tam Man Chi	1/1
Mr. Deng Xingping	1/1
Mr. Ong Chor Wei	1/1
Mr. Bai Xiaoshu +	1/1
Mr. Zhao Wei #	0/0

+ Mr. Bai Xiaoshu ceased to be a member of the Nomination Committee on 7 August 2012, and 1 Nomination Committee's meeting was held before his cessation.

Mr. Zhao Wei was appointed as a member of the Nomination Committee of the Company on 10 August 2012, and no Nomination Committee's meeting was held after his appointment.

Corporate Governance Committee

The Company established the CG Committee with written terms of reference on 30 March 2012.

Terms of reference adopted by the CG Committee are aligned with the code provisions set out in the New CG Code.

The functions of the CG Committee are to develop and review the Company's policies and practices on corporate governance to comply with the New CG Code and other legal or regulatory requirements and make recommendations to the Board; to oversee the Company's orientation program for new Director; to review and monitor the training and continuous professional development of Directors and senior management; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's disclosure in the Corporate Governance Report.

The CG Committee currently comprises three members as follows:

Mr. Na Qinglin *(Chairman of the Corporate Governance Committee)*
Mr. Kung Sze Wai
Mr. Chow Yu

During the year ended 31 December 2012, the CG Committee held 1 meeting to review the Company's policies and practices on corporate governance; to review the training and continuous professional development of Directors and senior management; and to review the Company's compliance with the Former CG Code and the New CG Code.

Name of Member	Number of attendance
Mr. Na Qinglin	1/1
Mr. Kung Sze Wai	1/1
Mr. Chow Yu	1/1

External Audit

The Company's external auditor, PricewaterhouseCoopers, performs independent statutory audits 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.

Auditors' Remuneration

The Company paid/payable a total remuneration of HKD2,570,000 and HKD195,000 to PricewaterhouseCoopers for their annual audit and non-audit services respectively during the year. The non-audit services mainly consist of taxation and consutlancy services.

Company Secretary

Mr. Kung Sze Wai ("Mr. Kung") was appointed as the company secretary of the Company on 2 June 2010. The biographical details of Mr. Kung are set out under the section headed "Biographical Details of Directors and Senior Management".

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Kung has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2012.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders to convene an extraordinary general meeting

Shareholders may convene an extraordinary general meeting of the Company according to the provisions as set out in the Articles of Association of the Company and the laws of the Cayman Islands. The procedures shareholders can use to convene an extraordinary general meeting are set out in the document entitled "Procedures for a Shareholder to Propose a Person for Election as a Director", which is currently available on the Company's website.

Putting enquiries by shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals by shareholders at shareholders' meeting

Shareholders should follow the procedures set out in the sub-section headed "Shareholders to convene an extraordinary general meeting" above for putting forward proposals for discussion at general meeting.

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 2013 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.

Constitutional Documents

There is no significant change in the Company's constitutional documents during the year.

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 of the Company;

– Publication of announcements on the annual and interim results on the websites 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

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

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 2012, 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.

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 2012, 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.

Directors' Report

The board (the "Board") of directors ("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 2012.

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 2012, approximately HKD375.8 million of the proceeds so raised was used, and the proceeds of approximately HKD137.0 million remain unused.

Details of the used proceeds of approximately HKD375.8 million are as follows:

	Net IPO proceeds (HKD million)		
	Available	Utilized	Unutilized
New production facilities	200.0	200.0	–
Production line and research & development expansion	40.0	40.0	–
Repayment to Shenzhen Kaifa for rent and operating expenses paid on behalf of the Group	34.0	34.0	–
Working Capital and Others including Mergers and Acquisitions ("M&A")	238.8	101.8	137.0
Total	512.8	375.8	137.0

In order to meet the growing demand on the optical networking products, O-Net Communications (Shenzhen) Limited, an indirect wholly-owned subsidiary of the Company, has entered into a construction contract with 深圳市華誠通建築工程有限公司 (Shenzhen Huacheng Tong Construction Engineering Company Limited) on 13 November 2012 for the construction of the new factory buildings on the piece of land owned by the Group which is located in the industrial zone of the Group at Cuijing Road, Pingshan Industrial Zone, Longgang District, Shenzhen, the PRC at a construction cost of approximately RMB65,977,587.10 (the "Construction Cost") for additional production lines.

In the absence of suitable acquisition targets for the time being, the Board resolved to utilize part of the proceeds for the M&A to satisfy in full the Construction Cost on 11 March 2013 in order to better utilize the resources of the Group.

Due to the foreign exchange control in the PRC, most of the net proceeds from the IPO were deposited into banks in PRC and 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.

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 2012 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 49 to 109.

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 7 May 2013 ("2013 AGM") a final dividend of HKD0.03 (2011: HKD0.03) per share to be paid on Tuesday, 21 May 2013 to those shareholders whose names appear on the register of members of the Company on Monday, 13 May 2013.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the Shareholders to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Friday, 3 May 2013 to Tuesday, 7 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2013 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, 2 May 2013.

For determining the entitlement of the Shareholders to the final dividend, the register of members of the Company will be closed on Monday, 13 May 2013, no transfer of shares will be registered on that date. In order to qualify for the proposed final dividend, 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 for registration not later than 4:30 p.m. on Friday, 10 May 2013.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2012 are set out in note 15 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 2012, the Company repurchased 44,438,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.59 to HKD2.06 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 (excluding expenses)
		Highest	Lowest	
		HKD	HKD	HKD
May 2012	14,144,000	1.88	1.63	24,916,001.20
June 2012	10,999,000	2.04	1.78	21,451,817.90
July 2012	14,836,000	2.06	1.75	27,579,414.00
August 2012	4,459,000	1.80	1.59	7,837,464.60
	44,438,000			81,784,697.70

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 2012, the Company's reserves available for distribution to the shareholders amounted to approximately HKD919.3 million.

DIRECTORS

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

Executive Director
Mr. Na Qinglin *(Co-Chairman of the Board and Chief Executive Officer)*
Mr. Xue Yahong (resigned on 1 April 2012)

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

Independent Non-executive Directors
Mr. Ong Chor Wei
Mr. Deng Xinping
Mr. Zhao Wei (appointed on 10 August 2012)
Mr. Bai Xiaoshu (resigned on 7 August 2012)

In accordance with Article 84(1) of the Articles, Mr. Tam Man Chi and Mr. Deng Xinping shall retire from office as Directors by rotation at the 2013 AGM and being eligible, offer themselves for re-election.

In accordance with Article 83(3) of the Articles, Mr. Zhao Wei, who was appointed as an independent non-executive Director of the Company on 10 August 2012, is subject to re-election at the 2013 AGM and, being eligible, offer himself for re-election.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the SEHK. 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 31 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 reporting period 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 2012	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2012
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. 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. 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				7,800,000	1,000,000	(1,000,000)	(6,800,000)	1,000,000

Name of category	Date of grant of share options	Exercise period	Exercise price of share options (HKD)	Outstanding at 1 January 2012	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2012
Other Employees	2 June 2010	2 June 2011 to 8 April 2020 (Note 1)	3.128	14,288,000	–	(13,899,000)	(389,000)	–
		2 June 2012 to 8 April 2020 (Note 2)		1,890,000	–	(1,890,000)	–	–
		2 June 2013 to 8 April 2020 (Note 3)		4,390,000	–	(3,890,000)	(500,000)	–
	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	–	13,899,000	–	(928,000)	12,971,000
		2 June 2012 to 8 April 2020 (Note 7)		–	1,890,000	–	–	1,890,000
		2 June 2013 to 8 April 2020 (Note 8)		–	3,890,000	–	(50,000)	3,840,000
		2 June 2012 to 8 April 2020 (Note 9)		–	13,172,000	–	(375,000)	12,797,000
	9 October 2012	9 October 2013 to 8 April 2020 (Note 10)	1.810	–	2,000,000	–	–	2,000,000
Total				46,550,000	35,851,000	(33,851,000)	(10,052,000)	38,498,000

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 vesting period commences on 9 October 2013, equally over a period of 5 years.

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. On 9 October 2012, a total of 2,000,000 share options under the Post-IPO Share Option Scheme were granted to an employee, and 10,052,000 share options were lapsed during the year ended 31 December 2012. Save as aforesaid, no further options were granted, cancelled and lapsed during the year ended 31 December 2012.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Share Option Scheme" above and in note 31 to the consolidated financial statements, at no time during the year ended 31 December 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.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors of the Company has entered into a service agreement with the Company on 9 April 2010 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 Mr. Deng Xinping and Mr. Ong Chor Wei, the independent non-executive Directors of the Company, has signed a letter of appointment with the Company on 9 April 2010 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.

Mr. Zhao Wei, an independent non-executive Director of the Company, has signed a letter of appointment with the Company on 10 August 2012 for an initial fixed term of three years commencing from 10 August 2012 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 2013 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 2012.

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 2012, 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	242,755,383 (Note 1)	32.13%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.24%
Mr. Deng Xinping	Beneficial owner	Long position	500,000 (Note 2)	0.07%
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000 (Note 2)	0.07%

Notes:

1. These 242,755,383 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 51.08% 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 242,755,383 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 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	30.13%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	227,636,237 (Note 1)	30.13%
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	227,636,237 (Note 1)	30.13%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	242,755,383	32.13%
Mandarin IT Fund I	Interest of a controlled corporation	Long position	242,755,383 (Notes 2 & 3)	32.13%
HC Capital Limited	Interest of a controlled corporation	Long position	242,755,383 (Notes 2 & 3)	32.13%
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	242,755,383 (Notes 2 & 3)	32.13%
Mr. Yeh Meou Tsen, Geoffery	Interest of a controlled corporation	Long position	242,755,383 (Notes 2 & 3)	32.13%
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	242,755,383 (Notes 2 & 4)	32.13%
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	242,755,383 (Notes 2 & 4)	32.13%
Mr. Na Qinglin	Interest of a controlled corporation	Long position	242,755,383 (Notes 2 & 4)	32.13%
FIL Limited	Beneficial owner	Long position	60,781,000	8.04%

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 242,755,383 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 51.08% 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 242,755,383 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 242,755,383 shares held by O-Net Holdings (BVI) Limited under the SFO.

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 throughout the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchase from the five largest suppliers accounted for approximately 23.5% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 9.0% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 51.9% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 26.9% 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 30 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 2012, the Group sold goods to Butterfly Technology (Shenzhen) Ltd., Co., a company owned as to 80% by Mr. Na Qinglin, the Co-Chairman, Chief Executive Officer and an executive Director of the Company, amounted to approximately HKD257,000 (2011: HKD42,000).

Since all of the applicable percentage ratios (other than the profit ratio) for the annual amount of the above transactions are less than 0.1%, the above transactions are exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31 of the Listing Rules.

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 Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. 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 audited consolidated financial statements of the Group for the year ended 31 December 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.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 24 to 35 of this annual report.

AUDITORS

A resolution will be submitted to the 2013 AGM to re-appoint PricewaterhouseCoopers as auditors of the Company.

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

Hong Kong, 11 March 2013

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 49 to 109, which comprise the consolidated and company balance sheets as at 31 December 2012, 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.

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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 2012, 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, 11 March 2013

Consolidated Balance Sheet

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

		As at 31 December	
		2012	2011
	Note(s)	**HKD'000**	HKD'000
ASSETS			
Non-current assets			
Land use right	6	**28,885**	29,541
Property, plant and equipment	7	**447,510**	240,091
Other non-current assets	8	**11,462**	-
Intangible assets	9	**276**	500
Deferred income tax assets	19	**4,316**	4,019
		492,449	274,151
Current assets			
Inventories	11	**177,071**	115,450
Trade and other receivables	13	**264,054**	294,523
Other current assets		**5,289**	-
Pledged bank deposits	14	**15,589**	66,253
Term deposits with initial term of over three months	14	**75,230**	50,700
Cash and cash equivalents	14	**558,937**	768,643
		1,096,170	1,295,569
Total assets		**1,588,619**	1,569,720
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**7,556**	8,000
Reserves		**1,381,115**	1,361,894
Total equity		**1,388,671**	1,369,894

	Note(s)	As at 31 December 2012 HKD'000	2011 HKD'000
LIABILITIES			
Current liabilities			
Trade and other payables	18	**186,498**	175,545
Current income tax liabilities		**13,450**	24,281
		199,948	199,826
Total liabilities		**199,948**	199,826
Total equity and liabilities		**1,588,619**	1,569,720
Net current assets		**896,222**	1,095,743
Total assets less current liabilities		**1,388,671**	1,369,894

The notes on pages 56 to 109 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 109 were approved by the Board of Directors on 11 March 2013 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 2012 HKD'000	2011 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	**497,967**	470,440
Current assets			
Trade and other receivables	13	**209,503**	131,726
Term deposits with initial term of over three months	14	**–**	50,700
Cash and cash equivalents	14	**296,551**	406,026
		506,054	588,452
Total assets		**1,004,021**	1,058,892
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**7,556**	8,000
Reserves		**984,859**	1,039,286
Total equity		**992,415**	1,047,286
LIABILITIES			
Current liabilities			
Trade and other payables	18	**11,606**	11,606
Total liabilities		**11,606**	11,606
Total equity and liabilities		**1,004,021**	1,058,892
Net current assets		**494,448**	576,846
Total assets less current liabilities		**992,415**	1,047,286

The notes on pages 56 to 109 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 109 were approved by the Board of Directors on 11 March 2013 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)

	Note(s)	Year ended 31 December 2012 HKD'000	2011 HKD'000
Revenue	20	**727,368**	669,381
Cost of sales	21	**(426,929)**	(369,545)
Gross profit		**300,439**	299,836
Other gains – net	20	**5,029**	6,661
Selling and marketing costs	21	**(37,141)**	(35,275)
Research and development expenses	21	**(73,137)**	(50,854)
Administrative expenses	21	**(93,355)**	(90,241)
Operating profit		**101,835**	130,127
Finance income	23	**13,119**	24,244
Finance costs	23	**(826)**	(176)
Finance income – net	23	**12,293**	24,068
Profit before income tax		**114,128**	154,195
Income tax expenses	24	**(16,318)**	(20,746)
Profit for the year		**97,810**	133,449
Profit attributable to:			
Equity holders of the Company		**97,810**	133,449
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	27	**0.13**	0.16
– Diluted	27	**0.13**	0.16

The notes on pages 56 to 109 are an integral part of these consolidated financial statements.

	Note(s)	Year ended 31 December 2012 HKD'000	2011 HKD'000
Dividend	26	**22,666**	24,000

Consolidated Statement of Comprehensive Income

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

	Year ended 31 December	
	2012	2011
	HKD'000	HKD'000
Profit for the year	**97,810**	133,449
Other comprehensive income		
Currency translation differences	**(459)**	33,351
Total comprehensive income for the year	**97,351**	166,800
Total comprehensive income attributable to:		
Equity holders of the Company	**97,351**	166,800

The notes on pages 56 to 109 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 16)	Retained earnings (Note 17)	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 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 31)	–	–	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
Balance at 1 January 2012	**8,000**	**975,112**	**37,665**	**349,117**	**1,369,894**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**97,810**	**97,810**
Other comprehensive income					
Currency translation differences	**–**	**–**	**(459)**	**–**	**(459)**
Total other comprehensive income	**–**	**–**	**(459)**	**97,810**	**97,351**
Total comprehensive income					
Share option scheme – value of services (Note 31)	**–**	**–**	**27,622**	**–**	**27,622**
Repurchase and cancellation of shares	**(444)**	**(81,752)**	**444**	**(444)**	**(82,196)**
Dvividends relating to 2011	**–**	**–**	**–**	**(24,000)**	**(24,000)**
Balance at 31 December 2012	**7,556**	**893,360**	**65,272**	**422,483**	**1,388,671**

The notes on pages 56 to 109 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	
		2012	2011
	Note(s)	**HKD'000**	HKD'000
Cash flows from operating activities			
Cash generated from operating activities	28	**178,495**	150,065
Interest paid		**(826)**	(176)
Income tax paid		**(24,319)**	(24,097)
Net cash from operating activities		**153,350**	125,792
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(246,184)**	(160,255)
Interest received		**11,778**	15,246
Proceeds from disposal of property, plant and equipment		**2,185**	24
(Placements)/payments of term deposits with initial term of over three months		**(24,530)**	332,177
Net cash (used in)/from investing activities		**(256,751)**	187,192
Cash flows from financing activities			
Dividends paid to shareholders		**(24,000)**	–
Proceeds from borrowings		**122,456**	38,557
Repayments of borrowings		**(122,456)**	(38,557)
Repurchase of own shares		**(82,196)**	(74,112)
Net cash used in financing activities		**(106,196)**	(74,112)
Net (decrease)/increase in cash and cash equivalents		**(209,597)**	238,872
Cash and cash equivalents at the beginning of the year		**768,643**	507,812
Exchange difference		**(109)**	21,959
Cash and cash equivalents at the end of the year		**558,937**	768,643

The notes on pages 56 to 109 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 11 March 2013.

(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"). These shareholders altogether are defined as the "Controlling Shareholders".

In preparation for the IPO, a series of group reorganization (the "Reorganization") was undertaken from 2006 to 2010, pursuant to which the group companies engaged in the Listing Business owned by O-NET Cayman were transferred to the Company and the Company became the holding company of the Group.

1 GENERAL INFORMATION *(Continued)*

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

Under Hong Kong Financial Reporting Standards ("HKFRS") 3 (Revised) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 'Business combination', the Reorganization relating to the transfer of the Listing Business to the Company has not been 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 2012.

- The HKASB has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012. The change in accounting policy does not have material impact on the Group.

- Amendment to HKFRS 7 'Disclosures-Transfer of financial assets' is effective for the annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- Amendment to HKFRS 1 'Severe hyperinflation and removal of fixed dates for first-time adopters' is effective for the annual periods beginning on or after 1 July 2011. These amendments include two changes to HKFRS 1, 'First-time adoption of HKFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to HKFRSs', thus eliminating the need for entities adopting HKFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe hyperinflation.

(b) New and amended standards not yet adopted by the Group

- The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group.

- HKAS1 (Amendment) 'Financial statement presentation' regarding other comprehensive income is effective for annual periods beginning on or after 1 July 2012

- HKFRS1 (Amendment) 'First time adoption', on government loans is effective for annual periods beginning on or after 1 January 2013

- Amendment to HKFRS10,11,12 on transition guidance is effective for annual periods beginning on or after 1 January 2013

- HKFRS 10 (Amendment) 'Consolidated financial statements' is effective for annual periods beginning on or after 1 January 2013

- HKAS 27 (Revised) 'Separate financial statements' is effective for annual periods beginning on or after 1 January 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(b) New and amended standards not yet adopted by the Group *(Continued)*

- HKFRS 11 (Amendment) 'Joint arrangements' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 28 (Revised) 'Associates and joint ventures' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 12 (Amendment) 'Disclosure of interests in other entitie' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 13 (Amendment) 'Fair value measurements' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 19 (Amendment) 'Employee benefits' is effective for annual periods beginning on or after 1 January 2013

- HK(IFRIC) Int 20 (Amendment) 'Stripping costs in the production phase of a surface mine' is effective for annual periods beginning on or after 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 statement.

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 2012 are set out in Note 10.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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'.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

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.

2.8 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.14 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee Benefits *(Continued)*

(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.

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 31 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 subsidiaries within the Group is treated as a deemed 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 the Company's investment in the subsidiaries, with a corresponding credit to equity in the Company's entity – level financial statements.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

If an equity award is cancelled by forfeiture, when the vesting conditions (other than market conditions) have not been met, any expense not yet recognised for that award, as at the date of forfeiture, is treated as if it had never been recognised. At the same time, any expense previously recognised on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(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 2012 (2011 – Nil).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.24 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.

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	
	2012	2011
	HKD'000	HKD'000
Assets		
RMB (recorded by entities within the Group using USD as functional currency)	**312,629**	305,003
USD (recorded by entities within the Group using RMB as functional currency)	**97,878**	94,740
HKD	**24,024**	40,244
Japanese Yen ("JPY")	**2,640**	1,215
Euro	**61**	93
Liabilities		
USD (recorded by entities within the Group using RMB as functional currency)	**33,486**	20,357
HKD	**7,967**	1,785
Euro	**–**	159
Japanese Yen ("JPY")	**235**	36

At 31 December 2012, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD 12,412,000 (2011 – 11,531,000) 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(b) Interest Rate Risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets as at 31 December 2012(2011 – 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 2012 (2011 – same).

(c) Price Risk

As at 31 December 2012, the Group did not hold any equity securities that were traded publicly. Accordingly, it was not exposed to commodity price risk (2011 – same) as at 31 December 2012.

(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	
	2012	2011
	HKD'000	HKD'000
Balances placed with listed banks in the PRC	**273,776**	517,900
Balance placed with listed banks and deposit taking company in Hong Kong	**178,862**	327,525
Balance placed with listed banks in United States of America ("USA")	**999**	–
Balance placed with unlisted bank in the PRC	**196,018**	40,141
	649,655	885,566

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.

(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 2012, the Group's financial liabilities were all due within 12 months from the balance sheet date (2011 – same). Their contractual amounts to be paid approximate to their carrying amounts as shown in the consolidated balance sheet (2011– 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 2012 (2011 – 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 2012, the Group did not have any assets or liabilities that were measured at fair value (2011 – 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.

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 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

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 more detailed explained in Note 31, the Group had granted share options to its employees under the Post-IPO Share Option Scheme during the year ended 31 December 2012. 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 31).

The fair value of options newly granted and increased in fair value of share options as mentioned in Note 31 during the year ended 31 December 2012 determined were approximately HKD1,737,000 and HKD8,919,000 repectively.

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 2012, the Expected Retention Rate was assessed to be approximately 91%.

If the Expected Retention Rate had been increased by 5 percentage points to 96%, the amount of share-based compensation expenses charged to the consolidated income statement for the year ended 31 December 2012 would be increased by approximately HKD1,215,000.

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 2012 (2011– same).

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

	2012 **HKD'000**	2011 HKD'000
The PRC	**288,786**	315,671
Europe	**203,008**	199,951
North and South America	**67,982**	31,178
Other Asia countries excluding the PRC	**167,592**	122,581
	727,368	669,381

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

	2012 **HKD'000**	2011 HKD'000
The PRC	**487,921**	270,015
Hong Kong	**74**	117
USA	**138**	–
	488,133	270,132

(c) During the year ended 31 December 2012, revenue derived from sales made to three (2011 – two) single external customers amounted to approximately 35% (2011 – 35%) 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:

	2012 **HKD'000**	2011 HKD'000
Outside of Hong Kong		
– Lease of 50 years	**28,885**	29,541

	Land use right HKD'000
Year ended 31 December 2011	
Opening net book amount	28,765
Amortization charge	(636)
Translation difference	1,412
Closing net book amount	29,541
Year ended 31 December 2012	
Opening net book amount	**29,541**
Amortization charge	**(648)**
Translation difference	**(8)**
Closing net book amount	**28,885**

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 2012 was 44 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 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
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)
Translation 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
Year ended 31 December 2012					
Opening net book amount	**16,764**	**716**	**95,910**	**126,701**	**240,091**
Additions	**219**	**397**	**36,354**	**200,969**	**237,939**
Disposals	**(71)**	**–**	**(1,237)**	**–**	**(1,308)**
Depreciation	**(1,941)**	**(217)**	**(27,669)**	**–**	**(29,827)**
Translation difference	**(9)**	**–**	**6**	**618**	**615**
Closing net book amount	**14,962**	**896**	**103,364**	**328,288**	**447,510**
At 31 December 2012					
Cost	**39,990**	**2,150**	**220,858**	**328,288**	**591,286**
Accumulated depreciation	**(25,028)**	**(1,254)**	**(117,494)**	**–**	**(143,776)**
Net book amount	**14,962**	**896**	**103,364**	**328,288**	**447,510**

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

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

	2012 **HKD'000**	2011 HKD'000
Cost of sales	**22,884**	19,279
Selling and marketing costs	**30**	32
Research and development expenses	**3,182**	2,427
Administrative expenses	**3,731**	2,734
	29,827	24,472

(b) For the year ended 31 December 2012, lease rentals amounting to HKD11,143,000 (2011 – HKD10,145,000) 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 2012 mainly comprised costs incurred for a new production plant under construction, which is located in Pingshan, Shenzhen, the PRC.

8 OTHER NON-CURRENT ASSETS – GROUP

	2012 HKD'000	2011 HKD'000
Prepayment for purchase of property, plant and equipment	**11,462**	–

9 INTANGIBLE ASSETS – GROUP

	Furniture, Patent HKD'000	Computer software HKD'000	Total HKD'000
At 1 January 2011			
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)
Translation 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
Year ended 31 December 2012			
Opening net book amount	**90**	**410**	**500**
Amortization charge	**(30)**	**(193)**	**(223)**
Translation difference	**–**	**(1)**	**(1)**
Closing net book amount	**60**	**216**	**276**
At 31 December 2012			
Cost	**210**	**1,048**	**1,258**
Accumulated amortization	**(150)**	**(832)**	**(982)**
Net book amount	**60**	**216**	**276**

The amortization charge has all been included in administrative expenses in the consolidated income statement (2011 – same).

10 INVESTMENT IN SUBSIDIARIES – COMPANY

	2012 **HKD'000**	2011 HKD'000
Investments in subsidiaries:		
– investments in equity interests – at cost, unlisted	**433,482**	433,482
– Deemed investment arising from share-based compensation of employees of subsidiaries (a)	**64,485**	36,958
	497,967	470,440

(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 31).

As at 31 December 2012, 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 Communications (USA), Inc. ("O-NET USA")	20 August 2012	USA	USD100	–	100%	Research & development centre with major operation in USA
O-NET Automation Technology, (HK) Limited ("O-NET Auto")	27 Jun 2012	Hong Kong	HKD10,000	–	100%	Investment holding
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.

11 INVENTORIES – GROUP

	2012 HKD'000	2011 HKD'000
Cost:		
Raw materials	**62,407**	48,826
Work-in-progress	**61,856**	39,805
Finished goods	**59,079**	31,242
Less: provision for write-down of inventories to net realizable values	**(6,271)**	(4,423)
	177,071	115,450

For the year ended 31 December 2012, the cost of inventories recognized as cost of sales, selling and marketing costs, research and development expenses and administrative expenses amounted to HKD302,865,000 (2011 – HKD275,896,000).

For the year ended 31 December 2012, the Group made provision for write-down of inventories to net realizable values of approximately HKD1,842,000 (2011 – HKD2,820,000). These amounts have been included in cost of sales in the consolidated income statement.

12 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

Group	**Loans and receivables** HKD'000
Assets	
As at 31 December 2012:	
Trade and other receivables excluding prepayments (Note 13)	**260,368**
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 14)	**649,756**
Total	**910,124**
As at 31 December 2011:	
Trade and other receivables excluding prepayments (Note 13)	292,352
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 14)	885,596
Total	1,177,948

12 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(Continued)

Group	Other financial liabilities HKD'000
Liabilities	
As at 31 December 2012:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 18)	**164,185**
As at 31 December 2011:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 18)	155,988

Company	Loans and receivables HKD'000
Assets	
As at 31 December 2012:	
Trade and other receivables (Note 13)	**209,503**
Cash and cash equivalents and term deposits with initial term of over three months (Note 14)	**296,551**
Total	**506,054**
As at 31 December 2011:	
Trade and other receivables (Note 13)	131,726
Cash and cash equivalents and term deposits with initial term of over three months (Note 14)	456,726
Total	588,452

12 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(Continued)

Company	Other financial liabilities HKD'000
Liabilities	
As at 31 December 2012:	
Trade and other payables (Note 18)	**11,606**
Total	**11,606**
As at 31 December 2011:	
Trade and other payables (Note 18)	11,606
Total	11,606

13 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2012 HKD'000	2011 HKD'000	**2012 HKD'000**	2011 HKD'000
Trade receivables (a)	**215,109**	228,862	**–**	–
Less: provision for impairment of receivables (b)	**(509)**	(1,346)	**–**	–
Trade receivables – net	**214,600**	227,516	**–**	–
Amounts due from related parties (Note 30(d))	**1,055**	42	**–**	–
Amounts due from subsidiaries	**–**	–	**171,503**	117,330
Bills receivable (c)	**38,604**	60,148	**–**	–
Prepayments	**3,686**	2,171	**–**	–
Interest receivables	**2,290**	1,671	**–**	396
Other receivables	**3,819**	2,975	**–**	–
Dividend receivables	**–**	–	**38,000**	14,000
	264,054	294,523	**209,503**	131,726

As at 31 December 2012, the fair value of trade and other receivables of the Group and the Company approximated their carrying amounts (2011 – same).

13 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANYT *(Continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**138,737**	135,719	**–**	–
USD	**122,226**	157,092	**–**	396
HKD	**451**	497	**209,503**	131,330
JPY	**2,640**	1,215	**–**	–
	264,054	294,523	**209,503**	131,726

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:

	Group	
Trade receivables	**2012**	2011
	HKD'000	HKD'000
Within 30 days	**63,113**	72,933
31 to 60 days	**57,833**	68,128
61 to 90 days	**58,387**	42,391
91 to 180 days	**33,959**	40,701
181 to 365 days	**1,507**	795
Over 365 days	**1,365**	3,956
	216,164	228,904

As at 31 December 2012, trade receivables of HKD65,801,000 (2011 – HKD73,040,000) 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	
	2012	2011
	HKD'000	HKD'000
Past due 1 to 90 days	**59,766**	68,966
Past due 91 to 180 days	**4,680**	1,226
Past due 181 to 365 days	**751**	2,257
Past due over 365 days	**604**	591
	65,801	73,040

As at 31 December 2012, trade receivables of HKD509,000 (2011 – HKD1,346,000) 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	
	2012	2011
	HKD'000	HKD'000
Past due 90 to 180 days	**–**	–
Past due 181 to 365 days	**–**	–
Past due over 365 days	**509**	1,346
	509	1,346

13 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANYT *(Continued)*

Note: *(Continued)*

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

	Group	
	2012	2011
	HKD'000	HKD'000
Opening balance	**1,346**	1,770
Write-back of impairment	**(834)**	(494)
Translation difference	**(3)**	70
Closing balance	**509**	1,346

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

	Group	
Bills receivable	**2012**	2011
	HKD'000	HKD'000
Within 30 days	**6,703**	7,769
31 to 90 days	**6,774**	24,951
91 to 180 days	**25,127**	27,428
	38,604	60,148

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.

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

	Group		Company	
	2012	2011	**2012**	2011
	HKD'000	HKD'000	**HKD'000**	HKD'000
Cash and cash equivalents (a)	**558,937**	768,643	**296,551**	406,026
Term deposits with initial term of over three months	**75,230**	50,700	**–**	50,700
Pledged bank deposits (b)	**15,589**	66,253	**–**	–
	649,756	885,596	**296,551**	456,726

(a) As at 31 December 2012, RMB denominated bank deposits placed by the Company in the financial institutions in Hong Kong and the PRC amounted to HKD275,305,000 (2011 – 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.

14 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	
	2012	2011	**2012**	2011
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**529,477**	655,298	**275,293**	306,785
USD	**96,644**	190,458	**1,930**	112,123
HKD	**23,573**	39,747	**19,328**	37,818
EUR	**62**	93	**–**	–
	649,756	885,596	**296,551**	456,726

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 2012 was 3.46% (2011 – 2.45%).

15 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 (a)	39,000,000	390,000
Increase in authorized share capital on 9 April 2010 (c)	9,961,000,000	99,610,000
As at 31 December 2011 and 2012	10,000,000,000	100,000,000

15 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 (a)	1	–	–
Issued on 22 February 2010 (b)	9,999	–	218,376
Issued upon the IPO (d)	193,280,000	1,933	510,847
Capitalization of share premium (e)	579,805,240	5,798	(5,798)
Issued under a private placement on 15 November 2010 (f)	60,000,000	600	325,468
Repurchase and cancellation of shares during the year (g)	(33,108,000)	(331)	(73,781)
As at 31 December 2011	799,987,240	8,000	975,112
Repurchase and cancellation of shares during the year (g)	**(44,438,000)**	**(444)**	**(81,752)**
As at 31 December 2012	**755,549,240**	**7,556**	**893,360**

(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 2012 and 2011 the Company repurchased and cancelled 44,438,000 and 33,108,000 ordinary shares, respectively.

16 OTHER RESERVES – GROUP AND COMPANY

Group:

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Capital reserve arising from Reorganization HKD'000 (a)	Currency translation reserve HKD'000	Total HKD'000
Balance at 1 January 2011	–	33,223	(85,421)	28,317	(23,881)
Share option scheme – value of services (Note 31)	–	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
Balance at 1 January 2012	**331**	**61,087**	**(85,421)**	**61,668**	**37,665**
Share option scheme – value of services (Note 31)	**–**	**27,622**	**–**	**–**	**27,622**
Repurchase and cancellation of shares	**444**	**–**	**–**	**–**	**444**
Currency translation differences	**–**	**–**	**–**	**(459)**	**(459)**
Balance at 31 December 2012	**775**	**88,709**	**(85,421)**	**61,209**	**65,272**

(a) The Company undertook the Reorganization during the year ended 2010. The share capital and share premium in the consolidated financial statements as at 1 January 2011 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.

16 OTHER RESERVES – GROUP AND COMPANY *(Continued)*

Company:

	Capital redemption reserve HKD'000	Share-based compensation HKD'000	Currency Translation reserve HKD'000	Total HKD'000
Balance at 1 January 2011	–	9,191	3,080	12,271
Share option scheme – value of services (Note 31)	–	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
Balance at 1 January 2012	**331**	**36,958**	**2,127**	**39,416**
Share option scheme – value of services (Note 31)	**–**	**27,527**	**–**	**27,527**
Repurchase and cancellation of shares	**444**	**–**	**–**	**444**
Currency translation differences	**–**	**–**	**(1,790)**	**(1,790)**
Balance at 31 December 2012	**775**	**64,485**	**337**	**65,597**

17 RETAINED EARNINGS – GROUP AND COMPANY

	Group HKD'000	Company HKD'000
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
Balance at 1 January 2012	**349,117**	**24,758**
Repurchase and cancellation of shares	**(444)**	**(444)**
Profit for the year	**97,810**	**25,588**
Dividends relating to 2011	**(24,000)**	**(24,000)**
Balance at 31 December 2012	**422,483**	**25,902**

18 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	HKD'000	HKD'000	**HKD'000**	HKD'000
Trade payables (a)	**113,892**	80,108	**–**	–
Amounts due to subsidiaries	**–**	–	**11,556**	11,556
Bills payable (c)	**4,329**	37,944	**–**	–
Accrued expenses	**10,608**	14,216	**50**	50
Payroll payable	**20,717**	18,775	**–**	–
Other payables	**35,356**	23,720	**–**	–
Advance from customers	**533**	295	**–**	–
Other taxes payable	**1,063**	487	**–**	–
	186,498	175,545	**11,606**	11,606

As at 31 December 2012, the fair value of trade and other payables of the Group and the Company approximated their carrying amounts due to their short maturities (2011 – same).

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

	Group	
	2012	2011
	HKD'000	HKD'000
Within 30 days	**37,867**	40,898
31 days to 60 days	**30,212**	16,221
61 days to 180 days	**41,167**	18,592
181 days to 365 days	**2,017**	724
Over 365 days	**2,629**	3,673
	113,892	80,108

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

	Group		Company	
	2012	2011	**2012**	2011
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**144,390**	148,994	**11,556**	11,556
USD	**33,906**	24,571	**–**	–
HKD	**7,967**	1,785	**50**	50
Euro	**-**	159	**–**	–
JPY	**235**	36	**–**	–
	186,498	175,545	**11,606**	11,606

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

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

Bills payable	Group **2012** **HKD'000**	 2011 HKD'000
Within 30 days	**–**	6,945
31 to 90 days	**–**	13,222
91 to 180 days	**4,329**	17,777
	4,329	37,944

19 DEFERRED INCOME TAX – GROUP

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

	2012 HKD'000	2011 HKD'000
Deferred income tax assets:		
– to be recovered within 12 months	**3,898**	3,571
– to be recovered after more than 12 months	**418**	448
	4,316	4,019
Deferred income tax liabilities:	**–**	–

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

	2012 HKD'000	2011 HKD'000
Deferred tax assets:		
Beginning of the year	**4,019**	2,911
Charged to the consolidated income statement (Note 24)	**296**	968
Translation difference	**1**	140
End of the year	**4,316**	4,019

19 DEFERRED INCOME TAX – GROUP *(Continued)*

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 2011	434	374	1,007	1,096	2,911
Credited/(charged) to the consolidated income statement	65	405	(852)	1,350	968
Translation difference	7	67	(155)	221	140
At 31 December 2011	506	846	–	2,667	4,019
At 1 January 2012	**506**	**846**	**–**	**2,667**	**4,019**
Credited/(charged) to the consolidated income statement	**(66)**	**152**	**–**	**210**	**296**
Translation difference	**–**	**–**	**–**	**1**	**1**
At 31 December 2012	**440**	**998**	**–**	**2,878**	**4,316**

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 2012 (2011 – same).

As at 31 December 2012, deferred income tax liabilities of approximately HKD39,721,000 (2011: HKD32,981,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD397 million (2011: HKD330 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 2012 (2011 – same).

20 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 2012 and 2011 are as follows:

	2012 HKD'000	2011 HKD'000
Revenue		
Sales of goods	**727,368**	669,381
Other gains – net		
Government grants (a)	**5,150**	6,026
Gain on sales of scrapped or surplus raw materials	**755**	651
(Loss)/gain on disposal of property, plant and equipment, net	**(877)**	12
Others	**1**	(28)
	5,029	6,661
Total	**732,397**	676,042

(a) The government grants were mainly received from the Finance Committee of Shenzhen Municipality as a special fund for the development of private and small and medium enterprises.

21 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:

	2012 HKD'000	2011 HKD'000
Staff costs – excluding share options granted to directors and employees	**198,353**	149,754
Share option expenses – for options granted to directors and employees (Note 22)	**27,622**	27,864
Raw materials consumed	**352,753**	290,662
Changes in inventories of finished goods and work in progress (Note 11)	**(49,888)**	(14,766)
Depreciation (Note 7)	**29,827**	24,472
Amortization (Notes 6, 9)	**871**	871
Write back of impairment provision for doubtful receivables (Note 13)	**(834)**	(494)
Provision for write-down of inventories (Note 11)	**1,842**	2,820
Sales commissions	**18,331**	18,473
Utilities charges	**18,820**	16,512
Operating lease rental (Note 7)	**11,143**	10,145
Freight charges	**4,942**	5,032
Auditors' remuneration	**2,570**	2,298
Professional expenses	**1,647**	2,056
Travelling expenses	**2,572**	2,119
Advertising costs	**1,165**	1,187
Others	**8,826**	6,910
	630,562	545,915

22 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS – GROUP

	2012 HKD'000	2011 HKD'000
Salaries, bonus and other welfares	**187,847**	141,426
Pension – defined contribution plans (a)	**10,506**	8,328
Share options granted to directors and employees (Note 21)	**27,622**	27,864
	225,975	177,618

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 2012 and 2011, 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 2012 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 (a)	1,546	–	–	649	28	2,223
Mr. Chen Zhujiang	148	–	–	–	–	148
Mr. Huang Bin	148	–	–	–	–	148
Mr. Tam Man Chi	148	–	–	–	–	148
Mr. Deng Xinping	295	–	267	–	–	562
Mr. Ong Chor Wei	295	–	267	–	–	562
Mr. Zhao Wei (b)	117	–	–	–	–	117
	2,697	–	534	649	28	3,908

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

b Directors' Emoluments *(Continued)*

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 (a)	1,404	–	2,750	230	24	4,408
Mr. Xue Yahong (c)	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 (c)	289	–	158	–	–	447
Mr. Ong Chor Wei	289	–	158	–	–	447
	2,896	903	3,895	310	64	8,068

(a) Mr Na QingLin is also the chief executive of the Company. As mentioned in Note 31 (b), in 2012, 6,800,000 shares of options previously granted to Mr. Na QingLin were cancelled and the fair value that otherwise would have been recognised for services received over the remainder of the respective vesting periods amounting to HKD4,265,734 was recognised as an expense in 2012.

(b) Mr. Zhao Wei was appointed during the year ended 31 December 2012.

(c) Mr. Xue Yahong and Mr. Bai Xiaoshu resigned during the year ended 31 December 2012.

c Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include one directors for the year ended 31 December 2012 (2011 – two), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2011 – three) individuals are as follows:

	2012 **HKD'000**	2011 HKD'000
Basic salaries	**4,759**	2,864
Pension costs	**84**	48
Bonus	**1,212**	368
Share option expenses	**5,421**	2,885
	11,476	6,165

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

c Five Highest Paid Individuals *(Continued)*

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

	2012	2011
Emolument bands		
HKD1,500,001 – HKD2,000,000	**–**	3
HKD2,000,001 – HKD2,500,000	**3**	–
HKD2,500,001 – HKD3,000,000	**1**	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 2012 (2011 – same).

23 FINANCE (INCOME)/COSTS – NET – GROUP

	2012 HKD'000	2011 HKD'000
Finance income		
– Interest income derived from bank deposits and other investment	**(12,390)**	(12,904)
– Exchange gain	**(729)**	(11,340)
Finance costs		
– Interest expenses on bank trade finance borrowings	**826**	176
Finance income – net	**(12,293)**	(24,068)

24 INCOME TAX EXPENSES – GROUP

	2012 HKD'000	2011 HKD'000
Current income tax		
– Hong Kong profits tax (b)	**4,828**	2,698
– PRC enterprise income tax (c)	**11,786**	19,016
Total current income tax	**16,614**	21,714
Deferred income tax (Note 19)	**(296)**	(968)
Income tax expenses	**16,318**	20,746

(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%.

24 INCOME TAX EXPENSES – GROUP *(Continued)*

(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.

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:

	2012 HKD'000	2011 HKD'000
Profit before income tax	**114,128**	154,195
Tax calculated at statutory tax rates applicable to entities comprising the Group	**28,532**	37,007
Tax effect of:		
Preferential tax concession	**(19,193)**	(23,028)
Expenses not deductible for tax purposes		
– Share option expenses	**6,906**	6,687
– Others	**73**	80
Income tax expenses	**16,318**	20,746

25 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 HKD25,588,000 (2011– HKD31,603,000).

26 DIVIDENDS

A final dividend in respect of the year ended 31 December 2012 of HKD0.03 per share (2011 – HKD0.03) was proposed pursuant to a resolution passed by the Board on 11 March 2013 and subject to the approval of the shareholders in the annual general meeting to be held on 7 May 2013. These financial statements do not reflect this dividend payable.

27 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.

	2012	2011
Profit attributable to equity holders of the Company (HKD'000)	**97,810**	133,449
Weighted average number of ordinary shares in issue (thousands)	**776,814**	820,058
Basic EPS (HKD per share)	**0.13**	0.16

(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 dilution effect of outstanding 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).

	2012	2011
Profit attributable to equity holders of the Company (HKD'000)	**97,810**	133,449
Weighted average number of ordinary shares in issue (thousands shares)	**776,814**	820,058
Adjustments for share options (thousands shares)*	**–**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**776,814**	820,058
Diluted EPS (HKD per share)	**0.13**	0.16

* Due to the fact that the outstanding share options would lead to an anti-dilution impact on the computation of diluted EPS, the effect of conversion was excluded from the computation.

28 CASH GENERATED FROM OPERATIONS – GROUP

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

	2012 HKD'000	2011 HKD'000
Profit before income tax	**114,128**	154,195
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 8)	**30,698**	25,343
Provision for write-down of inventories (Note 11)	**1,842**	2,820
Write-back of impairment provision for doubtful receivables (Note 13)	**(834)**	(494)
Gain on disposal of property, plant and equipment (Note 20)	**(877)**	(12)
Interest income (Note 23)	**(12,390)**	(12,904)
Interest expenses (Note 23)	**826**	176
Share options granted to sales distributors, directors and employees (Note 21)	**27,622**	27,864
Changes in working capital:		
– Inventories	**(63,469)**	(7,676)
– Trade and other receivables	**(4,344)**	(20,820)
– Trade and other payables	**34,629**	20,855
– Decrease/(increase) in pledged bank deposits	**50,664**	(39,282)
Cash generated from operating activities	**178,495**	150,065

Non-cash transactions

During the year ended 31 December 2012, the Group settled an outstanding payable balance of approximately HKD35,927,000 (2011 – 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 2012.

29 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:

	2012 HKD'000	2011 HKD'000
Not later than one year	**6,696**	1,922
Later than one year	**6,452**	944
	13,148	2,866

Capital Commitments

	2012 HKD'000	2011 HKD'000
Capital expenditure contracted for but not provided	**118,301**	68,947
Capital expenditure authorized but not contracted	**–**	–

30 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**
Butterfly Technology (Shenzhen) Ltd., Co.	Controlled by key management personnel of the Company
Qingdao Hisense Broadband Multimedia Technologies Co., Ltd. ("Qingdao Hisense")	The key management personnel of the Company was appointed as one of the directors of the holding company of Qingdao Hisense from 20 July 2012*

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

* After the appointment, the board seats of the holding company of Qingdao Hisense increased from 5 seats to 6 seats.

30 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 2012 and 2011:

Non-recurring transactions

	2012 HKD'000	2011 HKD'000
Sales of goods		
Qingdao Hisense #	**3,593**	–
Butterfly Technology (Shenzhen) Ltd., Co.	**257**	42
	3,850	42

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 transactions between the Group and Qingdao Hisense have been summarised from 20 July 2012, the day Qingdao Hisense became a related party.

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

	2012 HKD'000	2011 HKD'000
Salaries, bonus and other welfares	**10,291**	7,636
Pension – defined contribution plans	**126**	116
Share option expenses	**10,413**	7,158
	20,830	14,910

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

(d) Balances with Related Parties

In 2012 and 2011, the Group had the following balances with related parties:

	2012 HKD'000		2011 HKD'000	
	At end of the year	**Maximum outstanding during the year**	At end of the year	Maximum outstanding during the year
Trade receivables^				
Qingdao Hisense	**756**	**7,279**	–	–
Butterfly Technology (Shenzhen) Ltd., Co.	**299**	**299**	42	42
	1,055	**7,578**	42	42

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

31 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.

31 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 2012 and 2011 are as follows:

	2012	2011
Beginning of the year	**1,566,047**	1,769,211
Exercised	**(107,676)**	(195,332)
Forfeited	**(28,055)**	(7,832)
End of the year	**1,430,316**	1,566,047

As at 31 December 2012, 1,222,028 share options granted under the Pre-IPO Share Option Scheme were exercisable (2011 – 1,232,035).

31 SHARE OPTION SCHEMES *(Continued)*

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

(ii) Share options outstanding as at 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011	**Expiry date**
Number of share options granted to			
Directors	**96,794**	228,483	September 2015
Employees	**1,333,522**	1,337,564	April 2013-October 2016
	1,430,316	1,566,047	

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 2012, 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 ("Post-IPO Share Option Scheme").

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.

31 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 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	–	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	–	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.

31 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 31 December 2012	Exercise price	Vesting date
1 June 2012 (Note 1)	Tranche 1: 14,929,000 Tranche 2: 1,360,000 Tranche 3: 4,390,000 Tranche 4: 13,172,000 Total: 33,851,000	32,498,000	HKD1.910	Tranche 1 (for certain directors and employees): (i) 40% of the Replacement Options shall be exercisable from 2 June 2012; (ii) another 20% of the Replacement Options shall be exercisable from 2 June 2013; (iii) another 20% of the Replacement Options shall be exercisable from 2 June 2014; and (iv) the remaining Replacement Options shall be exercisable from 2 June 2015. Tranche 2 (for certain employees): vesting period commences at 2 June 2012, equally over a period of 4 years. Tranche 3 (for one director and certain employees): vesting period commences at 2 June 2013, equally over a period of 3 years. Tranche 4 (for one director and certain employees): vesting period commences at 2 June 2012, equally over a period of 3 years.
9 October 2012	Tranches 1, 2, 3, 4 & 5: 400,000 Total: 2,000,000	2,000,000	HKD1.800	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.

31 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 2012 and 2011are as follows:

	2012	2011
Beginning of the year	**46,550,000**	29,610,000
Granted (Note 1)	**35,851,000**	20,868,000
Forfeited	**(3,252,000)**	(3,928,000)
Cancelled on 1 June 2012 (Note 1)	**(33,851,000)**	–
Cancelled on 6 July 2012 (Note 2)	**(6,800,000)**	–
End of the year	**(38,498,000)**	46,550,000

As at 31 December 2012, 15,125,000 share options granted under the post-IPO share option scheme were exercisable (2011 – 9,117,000).

Note 1 In order to motivate the employees and directors who were granted options of the Company on 2 June 2010 and 13 January 2011 (the "Grantees") with exercise price of HKD 3.128 and HKD 5.374 respectively, on 1 June 2012, the Company cancelled 33,851,000 shares of options previously granted to the Grantees and granted the same number of new options (the "Replacement options") to subscribe for new shares of the Company with exercise price of HKD 1.910. Due to the fact that reduction of exercise price is considered to be beneficial to the Grantees, these replacement options are accounted for as modification of the original share options granted. The incremental fair value as of the date of modification is recognised over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the Replacement options and that of the original options.

The Replacement options were issued under the Post-IPO Share Option Scheme adopted by the Group on 9 April 2010 and have following restrictions on the sale of the shares arising from the exercise of these options. The Grantees shall not sell, hypothecate, encumber or otherwise transfer any shares or any right in such shares until such time that the fair market value of a share corresponding to each of Tranches 1 to 4 exceed the following price for each respective exercisable period which are as follows:

(i) HK$3.00-For the Replacement Options which can be allowed to be exercisable on or before 2 June 2013; and

(ii) HK$3.50-For the Replacement Options which can be allowed to be exercisable on or after 13 July 2013.

Note 2 On 6 July 2012, Mr. Na, the Co-Chairman, chief executive officer, an executive Director of the Company, voluntarily cancelled 6,800,000 share options granted to him in previous years. The fair value that otherwise would have been recognised for services received over the remainder of the respective vesting periods was recognised as an expense immediately.

31 SHARE OPTION SCHEMES *(Continued)*

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

(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.

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.

31 SHARE OPTION SCHEMES *(Continued)*

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

(ii) *(Continued)*

Modified on 1 June 2012:

Weighted average fair value Tranche 1 HKD	Tranche 2 HKD	Tranche 3 HKD	Tranche 4 HKD
0.8254	0.8418	0.8692	0.7848

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 60.42%, dividend yield of 1.5%, expected option life of 7.86 years, expected retention rate of the employees at 87.5%, 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.

Granted on 9 October 2012:

Weighted average fair value Tranche 1 HKD	Tranche 2 HKD	Tranche 3 HKD	Tranche 4 HKD	Tranche 5 HKD
0.7935	0.8426	0.8789	0.9058	0.9221

The fair value of the share options granted on 9 October 2012 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.810, volatility of 60.261%, dividend yield of 1.5%, expected option life of 7.5 years, expected retention rate of the employees at 87.5%, and an annual risk-free interest rate of 0.488%. 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 31 December 2012 and 2011 are as follows:

Number of share options granted to	As at 31 December 2012	As at 31 December 2011	Expiry date
Directors	**1,000,000**	9,300,000	8 April 2020
Employees	**37,498,000**	37,250,000	8 April 2020
	38,498,000	46,550,000	

32 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

	2012 HKD'000	2011 HKD'000	2010 HKD'000	2009 HKD'000	2008 HKD'000
Profitability and operating data					
Turnover	**727,368**	669,381	660,577	338,385	284,638
Gross profit	**300,439**	299,836	337,816	153,248	106,753
Selling and marketing costs	**37,141**	35,275	33,035	17,436	18,836
Research and development expenses	**73,137**	50,854	31,828	16,875	21,027
Administrative expenses	**93,555**	90,241	67,305	31,445	36,352
Profit before tax	**114,128**	154,195	203,729	88,507	24,851
Profit for the year	**97,810**	133,449	181,609	79,160	22,997
Profitability ratios					
Gross profit margin	**41.3%**	44.8%	51.1%	45.3%	37.5%
Profit before tax margin	**15.7%**	23.0%	30.8%	26.2%	8.7%
Net profit margin	**13.4%**	19.9%	27.5%	23.4%	8.1%
Operating ratios (as a percentage of revenue)					
Selling and marketing costs	**5.1%**	5.3%	5.0%	5.2%	6.6%
Research and development expenses	**10.1%**	7.6%	4.8%	5.0%	7.4%
Administrative expenses	**12.8%**	13.5%	10.2%	9.3%	12.8%

AS AT 31 DECEMBER

	2012 HKD'000	2011 HKD'000	2010 HKD'000	2009 HKD'000	2008 HKD'000
Assets and liabilities data					
Non-current assets	**492,449**	274,151	114,646	69,973	68,436
Current assets	**1,096,170**	1,295,569	1,303,163	252,345	158,126
Current liabilities	**199,948**	199,826	168,467	133,937	119,967
Equity	**1,388,671**	1,369,894	1,249,342	188,381	106,595