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)

2013
ANNUAL REPORT

O-Net Communications (Group) Limited was found in October 2000 and has been listed on the Stock Exchange of Hong Kong Limited since April 2010 with stock code 877. Through O-Net's strategy-Innovation and Diversification, O-Net gains a leading position in the high technology industry included optical networking, automation, electronic cigarette and touch panel industry.

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

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. 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

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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. Na Qinglin
Mr. Tam Man Chi
Mr. Ong Chor Wei
Mr. Zhao Wei

CORPORATE GOVERNANCE COMMITTEE

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

Corporate Information

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 Corporate Appraisal and Advisory Limited

STOCK OPTION AND INVESTMENT IN JOINT VENTURE 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
723,582,240 shares (as at this report approval date)

Board Lot Size
1,000 shares

CAYMAN ISLANDS SHARE REGISTRAR

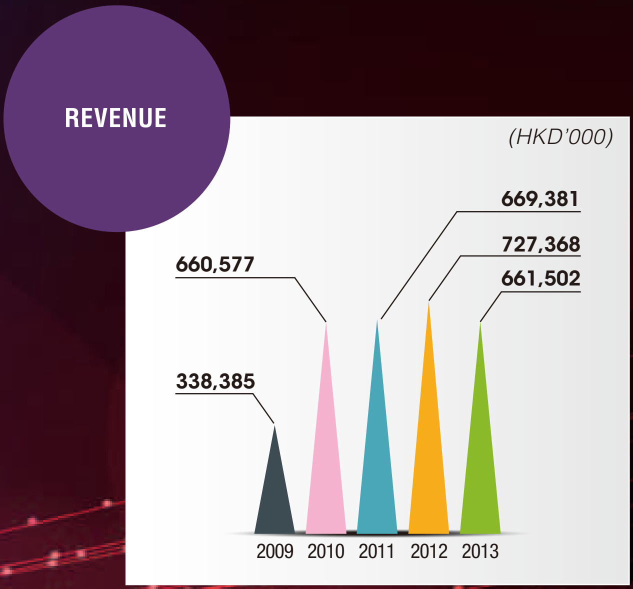
Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

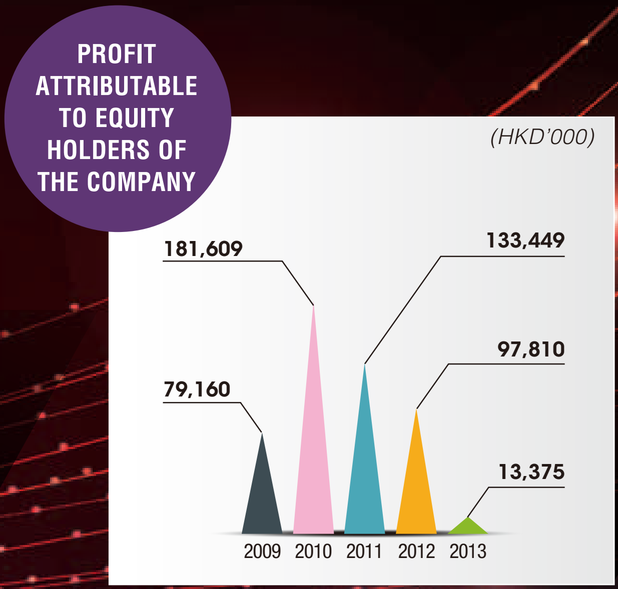
HONG KONG SHARE REGISTRAR

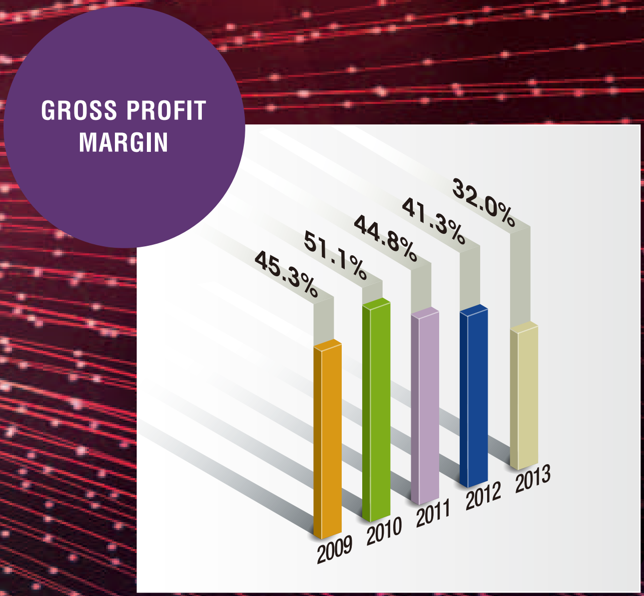
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

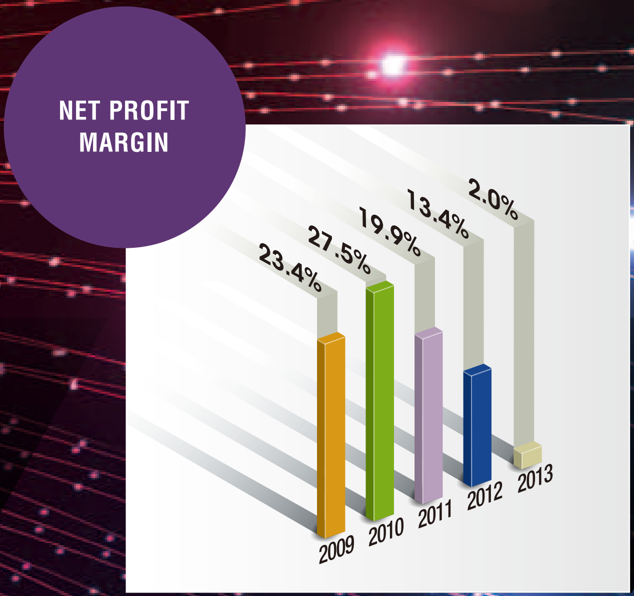
Financial Highlights

Financial Highlights









Chairman's Statement

We are confident that we will capture the important growth trend in optical components industry with new product offerings starting 2014 and resume our strong growth momentum. With the initial success in the automation business, we believe our overall business will continue the recovery in 2014 and embark on long term, sustainable growth trend which shall in no doubt bring great value and returns to the shareholders.

On behalf of the Board of Directors, I am pleased to present the Annual Report of O-Net Communications (Group) Limited and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 ("FY2013").

EXTERNAL ENVIRONMENT

The year 2013 was a dynamic year. In the US, the economy continued to pick up and the Federal Reserve took its first steps to ease back on its third round of quantitative easing ("QE3") by announcing the tapering of bond purchases. Meanwhile, the economy in the European Union has bottomed out and showed signs of recovery from negative growth while emerging markets and other developing countries maintained a relatively rapid rate of growth. Challenges still remain which test not only the Group's financial strengths but also our management and execution capabilities.

While the global economy continued to experience a slow recovery from the financial crisis, the global telecommunications and data-communications markets have gradually recovered throughout 2013. The Group, as one of the major players in the optical networking products industry for these markets, was on the recovery trend and achieved a business turnaround. Starting from the second half of 2013, the Group recorded profits in contrast to losses in the first half of 2013 as we successfully coped with a very tough market through the concerted efforts of management and employees.

CORPORATE DEVELOPMENT

In FY2013, we have successfully relocated to the new factory building and started operations. The new plant provides a strong base for our business expansion including various automation production processes which shall further strengthen our vertically integrated business model to maximize profits and market share in the optical networking industry. Meanwhile, we have continued to execute our core strategy of innovation and diversification. As for innovation, research and development ("R&D") is of paramount importance for the future growth and development of the Group. With the establishment of our USA R&D center in the year ended 31 December 2012 ("FY2012"), a series of high-growth next-generation active products for telecommunications and data-communications markets have been under development. Together with the ongoing expansion in our Shenzhen R&D teams, we have also bolstered our R&D capabilities through overseas investment. In FY2013, we have invested in a German company, VI Systems GmbH, to develop proprietary high speed optical interconnects and a Canadian company, ArtIC Photonics, Inc., to develop proprietary photonic integrated circuit chips. To this end, we believe, beginning from late 2014, the next-generation active products will start contributing to our business and will eventually take the Group's core business in optical networking back to the high-growth track. In addition to the effort on existing optical networking business, we are also actively seeking growth opportunities by diversifying into new businesses. We have set up O-Net Automation Technology (Shenzhen) Limited in FY2013, to explore the automation equipment market and have quickly identified several rapidly expanding market segments and achieved initial success with a revenue of HKD7.5 million for the financial year ended 31 December 2013. In addition, we have also set up a joint venture, O-Net WaveTouch Limited, with a Danish company to develop "WaveTouch" technology for touchscreen products.

Chairman's Statement

RESULTS HIGHLIGHTS AND STRONG CASH POSITION

In comparison with the weak demand in the first half of FY2013, the Group's business recorded 57.8% year-on-year growth in the second half of FY2013 and achieved total revenues of HKD661.5 million for the financial year ended 31 December 2013. This performance was made possible through the dedicated efforts and invaluable contributions of our management and staff. In regards to profit, after suffering a net loss of HKD22.8 million for the six months ended 30 June 2013, the Group finally achieved a net profit HKD13.4 million for the year ended 31 December 2013. During the year under review, the Group achieved a solid operating cash flow with HKD37.3 million. As a result, our cash position remained strong with more than HKD456.9 million in cash as at 31 December 2013.

DIVIDEND

The Board does not recommend any final dividend for year ended 31 December 2013 at the upcoming Annual General Meeting of the Company (2012 – HKD0.03 per shares).

PROSPECTS

For the global telecommunications and data-communications markets, a noteworthy development is the 100G deployments which has started in 2013 and likely to drive the growth in the optical networking industry for next three to five years. As we bolster our efforts to develop new products, we are confident that we will capture this important trend with new product offerings starting 2014 and resume our strong growth momentum in the optical networking business. Meanwhile, with the initial success in the automation business, we will continue to allocate adequate resources for diversification. With the continued support from shareholders and dedication of the team we are confident, through innovation and diversification, that our business will continue the recovery in 2014 and embark on long-term, sustainable growth trend which shall in no doubt bring great value and 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 express my gratitude to our customers and business partners for their loyalty to the Group over the years that has enabled us to maintain a stable performance for FY2013. On behalf of the Group, I would like to express our sincere thanks for the dedication and hard work of our entire staff.

Na Qinglin
Co-Chairman and Chief Executive Officer

Hong Kong, 18 March 2014

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. With the Group's signature strategy – Innovation, the Group started to R&D of certain active optical networking products used in the next generation telecommunications and data-communications systems by its new established USA R&D center. With the Group's new strategy "Diversify for Growth", the Group identified certain new businesses included automation and touch panel. Based on its core proprietary technologies and vertically integrated business model, the Group aims to become a leading high-tech company.

INDUSTRY AND BUSINESS REVIEW

Optical Networking Business

The global optical components market took a hit by the combined forces of macroeconomic weakness, inventory corrections, and natural disasters in 2011 and 2012. But the market had started to recover in 2013 driven by the need to support increasing traffic and new cloud-based service opportunities. Ovum expects that the annual growth rate will be 2% in 2013 and for the optical components market is to reach its historic peak of USD10.5 billion in 2018. This forecast calls for a compound annual growth rate of 8% for 2012 through 2018.

As market demand picked up in the second half of 2013 coupled with more efficient business execution by management, the Group successfully increased its market share and recorded a solid growth in the second half of 2013. For the second half of 2013, the Group recorded revenue of HKD404.9 million, representing a 57.8% rise compared to the first half of 2013 and an 11.9% growth over the second half of 2012. The Group was able to sustain such turnover growth with an increase of gross profit margin for the period to 33.4% for the second half of 2013, compared to 29.6% for the first half of the year.

Automation Business

With the higher manufacturing costs which are mainly brought about by the rising labour costs, China's manufacturing industry is undergoing a structural transformation. Players in the manufacturing sector are taking decisive action to control manufacturing costs and optimise the cost structure by reducing both direct and indirect labour costs through expanding automation across wider operations. Against such a backdrop, the resulting demand for automated equipment presents strong potential for the Group's development in the automation industry.

The Group's subsidiary, O-Net Automation Technology (Shenzhen) Limited, ("O-Net Automation") is proactively seeking opportunities with an aim to tap into different high growth industry segments and it has started to deliver customized high value-added automation equipment to electronic cigarette, mobile phone and home appliance manufacturer. In addition, O-Net Automation has developed automation equipment for producing heating coils and began to supply the heating coils produced by those equipment to the electronic cigarette makers in China from the last quarter of 2013. As a result, the Group established stable relationship with a number of electronic cigarette makers and become a leading supplier of heating coils in electronic cigarette industry.

For FY2013, the Group initially achieved a revenue of HKD7.5 million by supplying customized automation equipment to several selected manufacturing industries including electronic cigarette industry as well as heating coils to electronic cigarette makers in China. The gross profit margin of automation business was 39.5%.

FINANCIAL REVIEW

Revenue

Revenue in FY2013 which totaled HKD661.5 million, representing a decrease of HKD65.9 million, or 9.1%, compared to HKD727.4 million in FY2012, primarily attributable to the significant decrease in revenue of the optical networking business from the overseas market in the first half of FY2013, even the decline was partially offset by the increase in the revenue of optical networking business from the overseas market in the second half of FY2013 and the new revenue source generated from the automation business.

Revenue of the optical networking business in FY2013 was recorded at HKD654.0 million, representing a decrease of 10.1% compared to HKD727.4 million in FY2012. The decrease was primarily attributable to the significant drop in the revenue from the overseas market which represented 58.8% of the total optical networking revenue.

In the overseas market, even as the revenue in the second half of FY2013 increased by 26% in compared to the second half of FY2012, the significant decline of demand from the overseas market during the first half of FY2013 adversely affected the Group's overseas revenue. Consequently, overseas sales of HK384.7 million was recorded in FY2013, representing a drop of 12.3% compared with FY2012.

In the domestic market, with the "Broadband China" strategy promoted under the Twelfth Five-Year Plan, capital expenditures for supporting the increasing data traffic and new cloud-based services opportunities are expected to grow. While the Group has adopted a competitive pricing strategy for maintaining its market share in the domestic market, the domestic sales of HKD269.3 million was recorded in the FY2013 represented a drop of 6.7% compared with FY2012. The domestic revenue of the optical networking business represented 41.2% of the total optical networking revenue.

For FY2013, the Group's automation business achieved a revenue of HKD7.5 million, representing 1.1% of the Group's total revenue. O-Net Automation is proactively seeking opportunities in order to enter into high-growth industries and initially recorded revenue in FY2013 by supplying customized automation equipment to several selected high-growth industries and heating coils to the electronic cigarette makers in China. The revenue of HKD2.7 million was recorded by supplying customized automation equipment while the revenue of HKD4.8 million was recorded from selling heating coils which produced by the automation equipment developed by O-Net Automation.

Gross Profit and Gross Profit Margin

Gross profit for FY2013 was HKD211.8 million, a decrease of HKD88.6 million, or 29.5%, from the gross profit of HKD300.4 million in FY2012. The decline of gross profit was primarily due to the decrease in revenue and a reduction in gross profit margin of the optical networking business. Gross profit as a percentage of total revenue, or gross profit margin, dropped to 32.0% for FY2013 as compared with 41.3% for FY2012. Despite achieving a gross profit margin for the automation business at 39.5%, the drop was primarily due to the drop in gross profit margin for the optical networking business while the Group adopted a competitive pricing strategy for all product lines including the 40G optical networking products in order to expand the market share.

Other Gains

Other gains in FY2013 increased by 37.1% to HKD6.9 million, from HKD5.0 million in FY2012, primarily due to the one-off investment income from investment in joint venture of HKD3.2 million and the rental income received of HKD2.0 million even it partially offsetted by the decline in government grants.

Selling and Marketing Costs

The selling and marketing costs of HKD30.3 million in FY2013 representing a decrease of HKD6.8 million, or 18.4%, compared to HKD37.1 million in FY2012. The decrease in selling and marketing costs in FY2013 was primarily attributable to the decrease of the sales commissions and the share option costs.

Sales commissions for FY2013 were HKD13.7 million representing a decrease of HKD4.6 million, or 25.1% from HKD18.3 million in FY2012. The decrease was mainly attributable to the decrease in overseas sales and effective commission rate as the Group only incurred distributor commissions for overseas sales of optical networking business which decreased by 12.3% compared with FY2012. Besides, the effective commission rate, which was the result of total commissions paid by the Group divided by total overseas revenue, was 3.6% in FY2013 and 4.2% in FY2012. The decrease in here was primarily due to the fact that the Group paid lower commissions on all product lines during the year.

The share option cost in FY2013 was HKD0.7 million, a decrease of 66.7% compared with HKD2.1 million in FY2012. The decrease was primarily attributable to the fact that most of the share option costs related to the options granted to the sales staff in previous years were already fully amortized. In addition, a one-time expense was incurred for the replacement of share options granted in FY2012.

Selling and marketing costs as a percentage of revenue declined to 4.6% in FY2013 as compared to 5.1% in FY2012. The decrease was mainly attributable to the decreases of the sales commissions and the share option costs as explained above.

Research and Development Expenses

In FY2013, R&D expenses increased by 21.7% to HKD89.0 million, from HKD73.1 million in FY2012. The rise in R&D expenses was mainly due to the increase in salary cost, materials consumed and depreciation of fixed assets in R&D projects.

For FY2013, the salary cost was HKD38.6 million, an increase of 17.1% as compared with FY2012. The increase was primarily attributable to the increased hiring of R&D engineers including the R&D talents working for the new business divisions and at the R&D center in the USA.

Raw materials consumed in the R&D projects amounted to HKD29.6 million in FY2013, an increase of 23.3% from HKD24.0 million in FY2012. Meanwhile, depreciation of fixed assets in FY2013 amounted to HKD5.7 million, an increase of 54.1% given the corresponding figure of HKD3.7 million in FY2012. The increase of raw materials and fixed assets used for R&D projects were primarily attributable to the additional R&D projects for new products for next-generation networks and new business divisions.

R&D expenses as a percentage of revenues increased to 13.5% in FY2013 as compared to 10.1% in FY2012. The rise in R&D expenses and its percentage of revenues were mainly due to the decrease in revenue and the increase in salary cost, materials used and depreciation of fixed assets in R&D projects as explained above.

Administrative Expenses

Administrative expenses in FY2013 were HKD98.1 million, which was 5.1% higher compared to HKD93.4 million in FY2012. The increase in administrative expenses in FY2013 was primarily attributable to the increase in depreciation of fixed assets, utilities expenses and staff salaries which were partially offset by the decrease in share option costs.

The depreciation of fixed assets for FY2013 was HKD6.5 million, an increase of 103.1% from HKD3.2 million for FY2012. The increase was attributable to additional depreciation at the new factory, since it was started operation in the first half of FY2013.

The utilities expenses were HKD17.1 million in FY 2013, an increase of 166.0%, as compared with last year. The increase was primarily attributable to the additional recurring expenses of these kinds incurred since the usable space of factory expanded by 3.3 times after relocation to the new factory.

Salary cost in FY2013 was HKD48.8 million which representing an increase of 7.6% compared with the previous year. This increase was primarily attributable to the overall rises in the staff salaries.

The share option costs in FY2013 were HKD5.5 million, a decrease of 72.8% compared with HKD20.2 million in FY2012. The decrease was primarily attributable to most of the share option costs related to the options granted to the administrative staff in the prior years already being fully amortized. In addition, a one-time expense was incurred for the replacement of share options granted in FY2012.

Administrative expenses as a percentage of revenue increased to 14.8% during FY2013 as compared to 12.8% in FY2012. The rise was mainly due to the decrease in revenue and the increase in depreciation of fixed assets, utilities expenses and salary cost.

Finance Income

Net finance income for FY2013 amounted to HKD16.6 million, an increase of HKD4.3 million from HKD12.3 million in FY2012 due to an increase in foreign exchange gain which offset by the decrease in interest income. The higher foreign exchange gain was due to the appreciation of the RMB. The increase 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 continued to modestly rise in FY2013. The interest income in FY2013 was HKD5.0 million, a decrease of 59.7% compared with HKD12.4 million in FY2012. The decrease was mainly due to the decrease in total amount of cash and bank deposits of HKD192.8 million from HKD649.8 million in FY2012 to HKD457.0 million in FY2013.

Share of the Result of a Joint Venture

Share of the result of a joint venture of HKD2.8 million in FY2013 representing the Group's share of loss of a joint venture which was brought about by the joint venture's daily operating expenses. No such investment was held in FY2012.

Profit Before Tax and Profit Before Tax Margin

Profit before tax decreased by HKD99.1 million from HKD114.1 million for FY2012 to HKD15.0 million for FY2013. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 15.7% for FY2012 to 2.3% for FY2013. The decreases in profit before tax and profit before tax margin for the year were primarily due to a decline in revenue and gross profit margin as well as increases in R&D expenses and administrative 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 FY2013 amounted to HKD1.7 million, representing a drop of HKD14.7 million, or 89.8% from the income tax expense of HKD16.3 million in FY2012. The drop in income tax expenses was primarily due to a decline in net profit before tax in FY2013.

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

In FY2013, profit attributable to equity holders decreased by HKD84.4 million to HKD13.4 million, as compared to HKD97.8 million in FY2012. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, decreased from 13.4% in FY2012 to 2.0% in FY2013. The decrease in profit attributable to equity holders and net profit margin for FY2013 was primarily due to the decrease in revenue and gross profit margin as well as increases in R&D expenses and administrative 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 ("HKFRSs") 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 HKFRSs issued by the HKICPA.

	Year ended 31 December 2013 HKD'000	2012 HKD'000
Adjustment to measure non-GAAP Gross Profit		
Gross Profit	**211,778**	300,439
Adjustment related to Cost of Sales		
Provision for Inventories	**8,375**	1,842
Non-GAAP Gross Profit	**220,153**	302,281
Adjustment to measure non-GAAP Net Profit		
Net Profit	**13,375**	97,810
Adjustment related to Cost of Sales		
Provision for Inventories	**8,375**	1,842
Adjustments to measure to Operating Expenses		
Share options granted to Directors, employees and sales distributors	**10,721**	27,622
Amortization of intangible assets	**786**	871
Adjustments to Other Gains – net		
Investment income	**(3,228)**	–
Fair value loss on derivative financial instruments	**124**	–
Non-GAAP Net Profit	**30,153**	128,145
Non-GAAP EPS		
– Basic	**0.04**	0.16
– Diluted	**0.04**	0.16
Gross Profit Margin	**32.0%**	41.3%
Non-GAAP Gross Profit Margin	**33.3%**	41.6%
Net Profit Margin	**2.0%**	13.4%
Non-GAAP Net Profit Margin	**4.6%**	17.6%

Management
Discussion and
Analysis

Non-GAAP Profit Analysis

Non-GAAP net profit for FY2013 was HKD30.2 million, or HKD0.04 per share, compared to the non-GAAP net profit of HKD128.1 million, or HKD0.16 per share, reported for FY2012. Non-GAAP results for FY2013 excluded HKD8.4 million in provision for excess and obsolete inventory, HKD10.7 million in share options granted to Directors and employees expenses, HKD0.8 million in amortization of intangible assets, and HKD0.1 million in fair value loss on derivative financial instruments and include HKD3.2 million in investment income from investments in joint venture. Non-GAAP results for FY2012 excluded 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.

FUTURE PROSPECTS

Looking ahead to 2014, the Group's optical components business will still continue to be a key growth driver and the Group will start to deliver a series of high-growth next-generation active products for telecommunications and data-communications markets. The Group believes that beginning from 2014 these new products will start a gradual contribution to its business and will eventually take the Group's core business in optical networking back to a high-growth track. At the same time, in order to better manage its position in the face of uncontrollable environmental factors, the Group's business is evolving towards diversification. This strategy proved to be successful and the automation business has started to deliver revenue and will eventually improve the Group's overall profitability and drive the Group's business expansion in the coming years.

Take the optical networking business back to high-growth track

The Group is confident that its optical networking business will continue to grow in the global optical networking industry as the outlook for the optical components market is to reach its historic peak at USD10.5 billion in 2018 with a compound annual growth rate of 8% for 2012 through 2018. The China's State Council's "Broadband China" strategy under the Twelfth Five-Year Plan reinforcing this trend, whereby the broadband access speed in Chinese city households should reach 20 Mbps while rural households are expected to have a broadband speed of 4 Mbps. To this end, the Group has effectively allocated resources to improve its leading position in the optical networking industry. While its passive products have continuously relied on traditional free space optics technology, the Group is actively expand its technology platforms such as setting up an R&D center in U.S.A for the development of next-generation active products and investing in overseas companies to develop proprietary high speed optical interconnects and photonic integrated circuit chips. All in all, the optical networking business is well-placed to capture the opportunities when the global economy resumes robust growth. The Group is confident that its business scale will achieve a higher level and aid its growth for many years to come.

Diversify for enhancing long term value

Leveraging the diversification strategy, the Group is committed to develop its automation business. In terms of the industry's prospects, domestic industries are undergoing a period of transition characterised by rising labour costs, as domestic enterprises are generally hindered by high wages and recruitment difficulties which has also presented a great challenge to the traditional production line. China's automation equipment industry will develop at a fast pace driven by the process of enterprise upgrading and regeneration and the progress of migration of businesses from the "low-end" to the "high-end." Since the automation business launch a year ago, the Group has identified electronic cigarette, mobile phone and home appliance manufacturing industries and successfully delivered high value-added automation equipment that meet the demand of these industries. In addition, apart from supplying customized automation solutions, the Group also focused on the development of standard products for different automated production systems such as intelligence camera which believed to be launched by 2014. Concurrently the Group has become a leading supplier of the fast-growing electronic cigarette manufacturing industry in China. By the established supply relationships with several large electronic cigarette makers in China, the Group will continue to develop automation solutions for other components of the electronic cigarette in order to produce and supply those components in nearly future. In fact, electronic cigarette sales have doubled in each of the past two years, with awareness, trial and repeat usage continuing to build while sales currently are less than 1% of the tobacco industry's total. It is anticipated that the potential size of the electronic cigarettes market will reach more than 10% of the total tobacco industry by 2020. Thus the Group believes automation business will help drive its business growth in the near future.

In addition to automation, the Group has also invested in new technology for touch panel solutions. As stated in the Company's announcement dated 4 June 2013, the Group entered the touch panel industry through a joint venture ("JV") with OPDI Technologies A/S, a company incorporated in Denmark with limited liability, which focused on photonic sensor technologies. This initiative demonstrates the Group's willingness to enter a new industry with explosive growth prospects. The first-generation of sample touch panel is expected to be completed by 2014 and the joint venture expects to generate business with certain overseas customers in 2014. The Group will continuously benefit from the diversification strategy which provides new income sources and ultimately enhances its long term value.

In conclusion, leveraging on the Group's existing technology platforms, the Group will continue to invest in new business opportunities that are innovative and create substantial new value to its business. Efforts extended in past years shall very soon start to add new energy to the Group's top and bottom lines. Based in the newly completed facility in Pingshan District in Shenzhen City, the Group is ready to embark on another fast growth track, which shall bring improved returns and enhanced value to the Shareholders.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2013, the Company's issued share capital was approximately HKD7.2 million divided into 723,870,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,374.1 million (31 December 2012: HKD1,388.7 million). The Group had current assets of HKD940.1 million and current liabilities of HKD202.9 million and the current ratio was 4.6 times as at 31 December 2013 (31 December 2012: 5.5 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 2013 and 2012 since the Group did not have any borrowing.

As of 31 December 2013, the Group had cash and cash equivalents of approximately HKD281.8 million (31 December 2012: HKD558.9 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 possessed sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

During the year ended 31 December 2013, the Company repurchased and cancelled its own shares at a total consideration of HKD45.9 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 31 December 2013, HKD18.8 million bank deposits were pledged as guarantee for payables due to contractors and suppliers for the construction of the new plants in Shenzhen. The Group has also pledged bank deposits of HKD0.7 million as guarantee for bills payables due to raw material suppliers.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

During the year ended 31 December 2013, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2013, the Group had contractual capital commitments of approximately HKD67.5 million (31 December 2012: HKD118.3 million). As at 31 December 2013, 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 2013, 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 HKD149.7 million (31 December 2012: HKD237.9 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 are 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 2013, the Group had a total of 2,354 employees (31 December 2012: 2,350). The Group's staff costs (including Directors' fees) amounted to HKD209.5 million (31 December 2012: HKD226.0 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 were 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 2013, options in aggregate of 19,550,000 were granted to 41 employees of the Group (31 December 2012: options in aggregate of 35,851,000 were granted to 2 Directors and 307 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 does not recommend the payment of any final dividend for the year ended 31 December 2013 (2012: HKD0.03 per share).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2014 Annual General Meeting to be held on Tuesday, 3 June 2014 ("2014 AGM"), the register of members of the Company will be closed from Thursday, 29 May 2014 to Tuesday, 3 June 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at 2014 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 Wednesday, 28 May 2014.

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 2013.

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

As at 31 December 2013, 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 47, is the Co-Chairman of the Board, the Chief Executive Officer and an executive Director. Mr. Na joined the Company as the Chief Executive Officer in January 2002 and was subsequently appointed as the Co-Chairman of the Board 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 (the "Nomination Committee") and corporate governance committee (the "CG Committee") and a member of remuneration committee of the Company (the "Remuneration Committee"). Mr. Na is also a director of each of O-Net Communications (Shenzhen) Limited, O-Net Communications (Hong Kong) Limited and O-Net Communications Holdings Limited, all of which are subsidiaries of the Company. He is responsible for the Company's overall corporate strategy, management team development and daily operations.

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 66, is the Co-Chairman of the Board and a non-executive Director. He was appointed as a non-executive Director on 30 November 2009. He is a member of each of the Remuneration Committee and the Nomination Committee. Mr. Tam is also a director of each of O-Net Communications Holdings Limited, O-Net Communications (Hong Kong) Limited and O-Net Communications (Shenzhen) Limited, all of which are subsidiaries of the Company. As a non-executive Director, 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 Stock Exchange of Hong Kong Limited (the "SEHK"), since March 1998. From 1999 to September 2012, Mr. Tam served as a director of China Great Wall Computer Shenzhen Company Limited (Stock Code: 000066), 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.

Biographical Details of Directors and Senior Management

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

Mr. Chen is currently the chairman of each of Kaifa-O&M Components Co., Ltd. and Shenzhen Kaifa Micro-Electronics Co., Ltd. He has held these positions since April 2005. He is also the chairman of Suzhou Kaifa Technology Co., Ltd. since July 2005. Mr. Chen is currently the vice-president of Shenzhen Kaifa (Stock Code: 000021), a company listed on the Shenzhen Stock Exchange. Mr. Chen is also the executive vice-president of the Shenzhen Computer Industry Association and the standing director of the Shenzhen Electronic Chamber of Commerce. With regards to Mr. Chen's past positions, he had previously served Shenzhen Huaming Computer Co., Ltd. as a director and general manager. He had also served China Great Wall Computer Shenzhen Company Limited (Stock Code: 000066), a company listed on the Shenzhen Stock Exchange, as its vice chief of office. 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 53, was appointed as a non-executive Director on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. As a non-executive Director of the Company, he is not involved in the day-to-day operations of the Group. He is engaged in providing financial and investment advice to the Group.

Mr. Huang began his financial services career at Citibank in 1990 where he served as the assistant vice president and chief representative of the bank's Beijing Office. In that position, he was responsible for China's client coverage. Later on, in 1993, he joined Lehman Brothers as an associate and started the firm's Beijing Office. In 1995, he joined Salomon Brothers Asia Pacific as vice president, and was a director of Salomon Smith Barney engaged in corporate finance for the China market until he left the firm in 2000. He joined Mandarin Venture Partners Limited in 2000. Since 2000, he has been responsible for investment project origination at Mandarin Venture Partners Limited. Mr. Huang was appointed as an executive director of Theme International Holdings Limited (Stock Code: 990), a company listed on the SEHK, since December 2009, and re-designated as a non-executive Director on 30 April 2010. 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 48, was appointed as an independent non-executive Director on 9 April 2010. He is the chairman of the Remuneration Committee and a member of each of the audit committee (the "Audit Committee") and the 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) from 2001 to July 2007, Guangzhou FEnet Software Co., Ltd. and Guangzhou FEnet System Networks Co., Ltd. are wholly-owned subsidiaries of FEnet Co. Ltd.. 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 44, was appointed as an independent non-executive Director on 9 April 2010. Mr. Ong is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee.

Mr. Ong has over 23 years of experience in finance and accounting. Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited (previously known as "K Plas Holdings Limited") and a non-executive director of Joyas International Holdings Limited, both companies are listed on the Singapore Exchange Securities Trading Limited. Mr. Ong is an independent non-executive director of Man Wah Holdings Limited (Stock Code: 1999), which is a company listed on the SEHK). Mr. Ong is also a non-executive director of Hong Wei (Asia) Holdings Company Limited (Stock Code: 8191), which is a company listed on the Growth Enterprise Market of the SEHK. Previously, he served as a non-executive director of Jets Technics International Holdings Limited, a company which is 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.

Biographical Details of Directors and Senior Management

Mr. Zhao Wei

Mr. Zhao, aged 49, was appointed as an independent non-executive Director on 10 August 2012. He is a member of each of the Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Zhao has over 21 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 did not have 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 52, 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 20 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 oneyear post-doctoral research at the Telecommunication Research Labs of the University of Alberta, Canada.

Dr. Liu Qing Zhong

Dr. Liu, aged 55, 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 nextgeneration optical network. He joined the Group on 30 July 2012.

Dr. Liu has over 26 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.

Mr. Tan Boon Thong

Mr. 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. Gong Zhigang

Dr. Gong, aged 45, is the Vice President of Global Marketing for the telecommunication and data communication business. He joined the Group on 14 October 2013. In addition to his responsibilities include advancing the product marketing and product management operations of the communication business, Dr. Gong directly oversees P&L and product strategy development with the objective of supporting the Group's future growth.

Dr. Gong has extensive experience in product development, product management, product marketing and sales engineering management in respect of the optical communication industry. Prior to joining the Group, he held various senior positions with JDSU, and was entrusted with product line management and sales engineering management. In the seven years that Dr. Gong was with JDSU, he made significant contributions to the rapid growth of their transmission business. Preceding his tenure at JDSU, Dr. Gong served at a number of leading corporations in the United States, including Intel Corporation and Vitesse Semiconductor where he was tasked with product development and product marketing.

Dr. Gong holds a bachelor's degree in physics from Peking University and a master's degree in physics from the Chinese Academy of Science. He has also held a master's degree in electrical engineering majoring in computer network and a Ph.D. degree in physics, both from the University of Southern California, U.S.A.

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 11 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 56, 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 the Group. 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.

Biographical Details of Directors and Senior Management

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 41, 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 16 years' experience in finance, accounting, auditing, taxation and company secretarial services as well as over 10 years' experience in investor relations and corporate finance which he gained from working in the companies listed on the SEHK. Prior to joining the Group, Mr. Kung held various positions including chief financial officer and company secretary in several companies listed on the SEHK, in addition to being executive director and authorized representative for a company that is listed on 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 Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Shi Yinghong

Mr. Shi, aged 46, is the Vice President of Operations. He joined the Group on 22 July 2013. He is in charge of supervising the department of production, engineering, supply chain management and fixed assets with the goal of achieving operation excellence for the Group.

Mr. Shi has over 16 years of experience in research and development, operation and project management in relation to the optical communication industry. He has held prominent positions at several renowned telecommunication companies, including Senior Operation Manager of E-Tek USA, Senior Director of JDSU USA and China, and Vice President of Production of Source Photonics China. Mr. Shi possesses in-depth knowledge and experience in optical components, modules, subsystems, EDFAs, TOSAs, ROSAs and transceivers, as well as modern manufacturing techniques.

Mr. Shi graduated from Shandong University and holds a Bachelor of Science degree in Electrical Engineering and a Master of Science degree in Communications and Electronics System.

Dr. Yi Zhiming

Dr. Yi, aged 48, 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 16 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 Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") as its own code of corporate governance.

During the year ended 31 December 2013, the Company was in compliance with all the code provisions set out in the CG Code except for the deviations as explained below.

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

Under code provision A.4.1 of the CG Code, the non-executive director should be appointed for a specific term and subject to re-election. Upon the expiration of the term of the service contracts and letters of appointment (as the case may be) during the year, the non-executive Directors and the independent non-executive Directors are not appointed for a specific term (except Mr. Zhao Wei, who was appointed as an independent non-executive Director on 10 August 2012), but are subject to the retirement by rotation at least once every three years in accordance with the articles of association of the Company (the "Articles"). On 18 March 2014, the Company has entered into (i) a new service agreement with each of the non-executive Directors; and (ii) a new letter of appointment with each of the independent non-executive Directors (except Mr. Zhao Wei), all for a fixed term of three years commencing on 18 March 2014 unless terminated by not less than three months' notice in writing served by either party to the other.

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Tam Man Chi, the Co-Chairman and a non-executive Director of the Company, did not attend the annual general meeting of the Company held on 7 May 2013 ("2013 AGM") due to his engagement in his own official business.

Under code provision D.1.4 of the CG Code, the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors (except Mr. Zhao Wei) upon the expiration of their service contracts or letter of appointment (as the case may be) with the Company during the year. However, all Directors shall be subject to retirement in accordance with the Articles. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors are also required to comply with the requirements under statue and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. On 18 March 2014, the Company has entered into new service agreements with the executive Director and the non-executive Directors and new letters of appointment with the independent non-executive Directors (except Mr. Zhao Wei), setting out the key terms and conditions of their appointment.

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company. Mr. Tam Man Chi, the Co-Chairman and a non-executive Director of the Company, did not attend the 2013 AGM due to the engagement in his own official business. However, he has actively participated in the Board meetings to get involved in the Company's affairs.

Save as those mentioned above, in the opinion of the Directors, the Company has met all the code provisions set out in the CG Code during the year ended 31 December 2013.

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 ended 31 December 2013.

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. The Management has provided all members of the Board with monthly updates and/or any updates in a timely manner, giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge his duties. 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 and CEO)*

Non-Executive Directors
Mr. Tam Man Chi *(Co-Chairman)*
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 complied with Rule 3.10A of the Listing Rule that 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 23 to 26 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 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. The CG Committee is delegated the responsibility by the Board of reviewing and monitoring the training and continuous professional development of the Directors and senior management.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2013 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 2013.

The individual training record of each Director received for the year ended 31 December 2013 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) reading materials in relation to regulatory update
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 Officer

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

The roles of the Co-Chairman and CEO of the Group are as follows:

Co-Chairman	responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures.
CEO	responsible for managing the Group's 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 independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

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

Board Meetings

The Company planned in advance four scheduled Board meetings a year at approximately quarterly interval and additional meetings will be held as and when required. 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 2013, the Board held 7 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 Qinglin	7/7
Mr. Tam Man Chi	7/7
Mr. Chen Zhujiang	7/7
Mr. Huang Bin	7/7
Mr. Ong Chor Wei	7/7
Mr. Deng Xinping	7/7
Mr. Zhao Wei	7/7

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 Meeting

During the year ended 31 December 2013, 1 general meeting of the Company was held, being the 2013 annual general meeting of the Company held on 7 May 2013.

Name of Director	Number of attendance
Mr. Na Qinglin	1/1
Mr. Tam Man Chi	0/1
Mr. Chen Zhujiang	1/1
Mr. Huang Bin	1/1
Mr. Ong Chor Wei	1/1
Mr. Deng Xinping	1/1
Mr. Zhao Wei	1/1

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. A Co-Chairman and the chairmen of the Audit Committee, the Nomination Committee, the Remuneration Committee and the CG Committee attended the 2013 AGM held on 7 May 2013 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 CG Code:

- 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 which was approved by the Board on 9 April 2010 and revised on 30 March 2012 and further revised on 27 August 2013. 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)*
Mr. Deng Xinping
Mr. Zhao Wei

Terms of reference of the Audit Committee are aligned with the code provisions set out in the 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 discuss with management the internal control system to ensure an effective internal control system is in place.

The Audit Committee also responsible for making recommendation to the Board on the appointment, reappointment and removal of the external 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 2013, the Audit Committee held 2 meetings:–

Name of Director	Number of attendance
Mr. Ong Chor Wei	2/2
Mr. Deng Xinping	2/2
Mr. Zhao Wei	2/2

During the year ended 31 December 2013, 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 which was approved by the Board on 9 April 2010 and revised on 30 March 2012 and further revised on 27 August 2013. The terms of reference of the Remuneration Committee is currently made available on the websites of the SEHK and the Company.

Terms of reference of the Remuneration Committee are aligned with the code provisions set out in the 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, CEO, 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 CEO as appropriate.

The Remuneration Committee currently comprises five members as follows:

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

During the year ended 31 December 2013, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management and 5 meetings for considering the grant of share options to relevant senior management and employees.

Name of Director	Number of attendance
Mr. Deng Xinping	6/6
Mr. Tam Man Chi	6/6
Mr. Na Qinglin	6/6
Mr. Ong Chor Wei	6/6
Mr. Zhao Wei	6/6

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, 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 26 to the consolidated financial statements.

Nomination Committee

The Company established the Nomination Committee with written terms of reference which was approved on 9 April 2010 and revised on 30 March 2012 and 27 August 2013 respectively. The terms of reference of the Nomination Committee is currently made available on the websites of the SEHK and the Company.

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

The Nomination Committee is chaired by a Co-Chairman. The functions of the Nomination Committee are to review and monitor the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board and made recommendations on any proposed changes to the Board to complement the Group's corporate strategy; to identify suitably qualified individuals to become members of the Board; to assess the independence of the independent non-executive Directors; to review the board diversity policy, and the measurable objectives that the Board has set thereof, and the progress on achieving the objectives; 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 CEO. To enhance the quality of the performance of the Board and to achieve diversity on the Board, the Board adopted on 27 August 2013 its board diversity policy.

The Nomination Committee currently comprises five members as follows:

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

During the year ended 31 December 2013, the Nomination Committee held 1 meeting to review the Board composition, 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 Xinping	1/1
Mr. Ong Chor Wei	1/1
Mr. Zhao Wei	1/1

Corporate Governance Committee

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

Terms of reference of the CG Committee are aligned with the code provisions set out in the 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 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)*
Mr. Kung Sze Wai
Mr. Chow Yu

During the year ended 31 December 2013, 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 CG Code.

Name of Director/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 HKD2,451,000 and HKD313,000 to PricewaterhouseCoopers for their annual audit and non-audit services respectively during the year. The non-audit services mainly consist of taxation and consultancy 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 not less than 15 hours of relevant professional training during the financial year ended 31 December 2013.

Communications with Shareholders and Investors

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 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.

Shareholders' 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 2014 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 and a notice of annual general meeting 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 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

– The general meeting 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 system 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 system of controls on an ongoing basis.

During the year ended 31 December 2013, 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 their 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 2013, 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 2013.

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 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 2013, the proceeds so raised have been fully utilized.

Details of the used proceeds of approximately HKD512.8 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 Acquisition ("M&A")	238.8	238.8	–
Total	512.8	512.8	–

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.

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 2013 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 58 to 131.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: HKD0.03).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the company to be held on Tuesday, 3 June 2014 ("2014 AGM"), the register of members of the Company will be closed from Thursday, 29 May 2014 to Tuesday, 3 June 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2014 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 Wednesday, 28 May 2014.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2013 are set out in note 18 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's 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 2013, the Company repurchased 31,679,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.27 to HKD1.66 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
June 2013	14,522,000	1.59	1.27	20,758,706.60
July 2013	11,936,000	1.47	1.38	16,968,140.00
November 2013	3,035,000	1.57	1.47	4,721,950.00
December 2013	2,186,000	1.66	1.56	3,545,530.00
	31,679,000			45,994,326.60

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 2013, the Company's reserves available for distribution to the shareholders amounted to approximately HKD856.4 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 CEO)*

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

In accordance with Article 84(1) of the Articles, Mr. Na Qinglin, Mr. Chen Zhujiang and Mr. Huang Bin shall retire from office as Directors by rotation at the 2014 AGM and being eligible, offer themselves 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 Listing Rules on the SEHK. The Company considers all of the independent non-executive Directors are independent.

SHARE OPTION SCHEMES

Details of the Pre-IPO Share Option Scheme are set out in the Prospectus and Note 35 to the consolidated 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. The purpose of the Post-IPO Share Option Scheme is to enable the Board, at its discretion, to grant options to any eligible participants including but not limited to Directors and employees as incentives or rewards for their contribution to the Group. The maximum number of Shares which may be issued upon exercise all options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes shall not exceed 30% of the issued shares of the Company from time to time. The number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme shall not exceed 10% of the issued shares of the Company on the date of listing of the Shares. No option may be granted to any eligible participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Post-IPO Share Option Scheme (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. There is no minimum holding period for which an option must be held before exercise pursuant to the Post-IPO Share Option Scheme. The commencement date of the period during which an option may be exercised shall be determined by the Board and specified in the offer letter in respect of the option. An offer for the grant of option must be accepted within the time period specified in the relevant offer letter. A sum of HK$10.00 is payable as consideration upon acceptance of the offer.

The exercise price is the highest of (a) the nominal value of a share of the Company; (b) the closing price of a Share as stated in the SEHK's daily quotation sheet on the date of grant; and (c) the average closing price of a Share as stated in the SEHK's daily quotation sheets for the five business days immediately preceding the date of grant.

The share option scheme is valid and effective for a period of 10 years commencing on 9 April 2010, being its date of adoption.

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 2013	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2013
Directors								
Mr. Deng Xinping	1 June 2012	2 June 2012 to 8 April 2020 *(Note 1)*	1.910	500,000	–	–	–	500,000
Mr. Ong Chor Wei	1 June 2012	2 June 2012 to 8 April 2020 *(Note 1)*	1.910	500,000	–	–	–	500,000
Sub-total				1,000,000	–	–	–	1,000,000

Name of category	Date of grant of share options	Exercise period	Exercise price of share options (HKD)	Outstanding at 1 January 2013	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2013
Other Employees	10 October 2011	10 October 2012 to 8 April 2020 *(Note 2)*	1.870	4,000,000	–	–	–	4,000,000
	1 June 2012	2 June 2012 to 8 April 2020 *(Note 1)*	1.910	12,971,000	–	–	(1,370,000)	11,601,000
		2 June 2012 to 8 April 2020 *(Note 3)*		1,890,000	–	–	(80,000)	1,810,000
		2 June 2013 to 8 April 2020 *(Note 4)*		3,840,000	–	–	(530,000)	3,310,000
		2 June 2012 to 8 April 2020 *(Note 5)*		12,797,000	–	–	(3,054,000)	9,743,000
	9 October 2012	9 October 2013 to 8 April 2020 *(Note 6)*	1.810	2,000,000	–	–	–	2,000,000
	22 April 2013	12 February 2014 to 8 April 2020 *(Note 7)*	1.680	–	200,000	–	–	200,000
		3 March 2014 to 8 April 2020 *(Note 8)*		–	2,350,000	–	–	2,350,000
		7 April 2014 to 8 April 2020 *(Note 9)*		–	350,000	–	(350,000)	–
	11 September 2013	11 September 2014 to 8 April 2020 *(Note 10)*	1.708	–	2,000,000	–	–	2,000,000
	25 September 2013	13 August 2014 to 8 April 2020 *(Note 11)*	1.652	–	350,000	–	–	350,000
	16 October 2013	14 October 2014 to 8 April 2020 *(Note 12)*	1.628	–	4,000,000	–	–	4,000,000
	8 November 2013	8 November 2014 to 8 April 2020 *(Note 13)*	1.484	–	10,300,000	–	–	10,300,000
Total				**38,498,000**	**19,550,000**	**–**	**(5,384,000)**	**(52,664,000)**

Notes:

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

2. The vesting period was commenced on 10 October 2012, equally over a period of 5 years.

3. The vesting period was commenced on 2 June 2012, equally over a period of 4 years.

4. The vesting period was commenced on 2 June 2013, equally over a period of 3 years.

5. 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.

6. The vesting period was commenced on 9 October 2013, equally over a period of 5 years.

7. The vesting period was commenced on 12 February 2014, equally over a period of 5 years.

8. The vesting period was commenced on 3 March 2014, equally over a period of 5 years.

9. The vesting period was commenced on 7 April 2014, equally over a period of 5 years.

10. The vesting period was commenced on 11 September 2014, equally over a period of 5 years.

11. The vesting period was commenced on 13 August 2014, equally over a period of 5 years.

12. The vesting period was commenced on 14 October 2014, equally over a period of 4 years.

13. The vesting period was commenced on 8 November 2014, equally over a period of 5 years.

A total of 38,498,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2013. During the year ended 31 December 2013, the Company granted a total of 19,550,000 share options under the Post-IPO Share Option Scheme. On 22 April 2013, a total of 2,900,000 share options under the Post-IPO Share Option Scheme were granted to 5 employees. The closing price per Share immediately before 22 April 2013 (the date on which share options were granted) was HKD1.67. On 11 September 2013, a total of 2,000,000 share options under the Post-IPO Share Option Scheme were granted to an employee. The closing price per Share immediately before 11 September 2013 (the date on which share options were granted) was HKD1.70. On 25 September 2013, a total of 350,000 share options under the Post-IPO Share Option Scheme were granted to an employee. The closing price per Share immediately before 25 September 2013 (the date on which share options were granted) was HKD1.70. On 16 October 2013, a total of 4,000,000 share options under the Post-IPO Share Option Scheme were granted to an employee. The closing price per Share immediately before 16 October 2013 (the date on which share options were granted) was HKD1.60. On 8 November 2013, a total of 10,300,000 share options under the Post-IPO Share Option Scheme were granted to 33 employees. The closing price per Share immediately before 8 November 2013 (the date on which share options were granted) was HKD1.43. 5,384,000 share options were lapsed during the year ended 31 December 2013. Save as aforesaid, no further options were granted, cancelled and lapsed during the year ended 31 December 2013.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Share Option Schemes" above and in note 35 to the consolidated financial statements, at no time during the year ended 31 December 2013 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

During the year, the terms of the executive Director and non-executive Directors expired and each of them has entered into a new service agreements with the Company for a fixed term of three years commencing on 18 March 2014 unless 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. The executive Director may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the Remuneration Committee.

During the year, the term of the independent non-executive Directors expired (except for Mr. Zhao Wei) and each of them has entered into a new letter of appointment with the Company for a fixed term of three years commencing on 18 March 2014 unless terminated by not less than three months' notice in writing served by either party to the other.

Mr. Zhao Wei, an independent non-executive Director, has signed a letter of appointment with the Company for a term of three years commencing from 10 August 2012 unless terminated by not less than three months' notice in writing served by either party to the other.

None of the Directors who are proposed for re-election at the 2014 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 2013.

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 2013, 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, 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	245,896,383 *(Note 1)*	33.97%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.29%
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. Mr. Na Qinglin ("Mr. Na") is deemed to be interested in (i) 240,664,383 shares of the Company held by O-Net Holdings (BVI) Limited, a company owned as to approximately 51.52% 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; and (ii) 5,232,000 shares of the Company held by Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na. Therefore, Mr. Na is deemed to be interested in these 245,896,383 shares of the Company 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 2013, 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	31.45%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	227,636,237 *(Note 1)*	31.45%
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	227,636,237 *(Note 1)*	31.45%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	240,664,383	33.25%
Mandarin IT Fund I	Interest of a controlled corporation	Long position	240,664,383 *(Notes 2 & 3)*	33.25%
HC Capital Limited	Interest of a controlled corporation	Long position	240,664,383 *(Notes 2 & 3)*	33.25%
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	240,664,383 *(Notes 2 & 3)*	33.25%
Mr. Yeh Meou-Tsen, Geoffery	Interest of a controlled corporation	Long position	240,664,383 *(Notes 2 & 3)*	33.25%
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	240,664,383 *(Notes 2 & 4)*	33.25%
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	240,664,383 *(Notes 2 & 4)*	33.25%
Mr. Na Qinglin	Interest of a controlled corporation	Long position	245,896,383 *(Notes 2, 4 & 5)*	33.97%

Notes:

1. These 227,636,237 shares of the Company 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 Kaifa Technology Co., Ltd. and Great Wall Technology Company Limited is deemed to be interested in these 227,636,237 shares of the Company under the SFO.

2. These 240,664,383 shares of the Company are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 51.52% 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 these 240,664,383 shares of the Company held by O-Net Holdings (BVI) Limited under the SFO.

4. Mandarin IT Fund I is managed by its investment manager, Mandarin VP (BVI) Limited, which is a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned approximately 75% by Mr. Na, the Co-Chairman, CEO and an executive Director of the Company; therefore, each of Mandarin VP (BVI) Limited, Mandarin Venture Partners Limited and Mr. Na is deemed to be interested in these 240,664,383 shares of the Company held by O-Net Holdings (BVI) Limited under the SFO.

5. Mr. Na is deemed to be interest in 5,232,000 shares of the Company held through Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2013.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchase from the five largest suppliers accounted for approximately 29.3% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 10.4% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 49.5% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 26.4% 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 34 to the consolidated financial statements also constituted connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules which are required to be disclosed in this report.

EXEMPT CONNECTED TRANSACTION

During the year ended 31 December 2013, the Group sold goods to and purchased fixed assets from 紅蝶科技（深圳）有限公司 (Butterfly Technology (Shenzhen) Limited), a company owned as to 80% by Mr. Na, the Co-Chairman, CEO and an executive Director of the Company, amounted to approximately HKD200,000 (2012: HKD257,000) and HKD663,000 (2012: Nil) respectively.

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.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2013, the Group had entered into the following continuing connected transaction that was subject to the Listing Rules' reporting requirement for disclosure in this report:

On 31 January 2013, 昂納信息技術（深圳）有限公司 (O-Net Communications (Shenzhen) Limited) ("O-Net Shenzhen"), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of the Company, entered into a tenancy agreement with 紅蝶科技（深圳）有限公司 (Butterfly Technology (Shenzhen) Limited) (the "Tenant"), a company incorporated in the PRC with limited liability which is owned as to 80% by Mr. Na, for the leasing to the Tenant the East Portion, 6/F., O-Net Park Complex, No. 35 Cuijing Road, Pingshan New District, Shenzhen, the PRC and up to 20 units of the vacant staff quarters of the adjacent dormitory building (the "Premises") for a term of 3 years commencing on 1 February 2013 and ending on 31 January 2016 (both days inclusive).

As the Tenant is a company which is owned as to 80% by Mr. Na, the co-chairman, the CEO and an executive Director of the Company, and hence, an associate of Mr. Na and a connected person of the Company.

The annual cap for the rentals of the Premises and the utilities charges receivable from the Tenant under the Tenancy Agreement for the financial year ended 31 December 2013 is RMB2,865,500.

For the year ended 31 December 2013, the aggregate amount of rentals and reimbursements received from the Tenant amounted to approximately HKD1,964,000.

The independent non-executive Directors of the Company have reviewed the above non-exempt continuing connected transaction and confirmed that the transaction has been entered into:

(i) in the ordinary and usual course of the Group's business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor of the Company has reviewed the above continuing connected transaction and provided a letter to the Company confirming that in respect of the above continuing connected transaction:

(1) nothing has come to the auditor's attention that causes it to believe that the transaction has not been approved by the Board;

(2) nothing has come to the auditor's attention that causes it to believe that the transaction was not entered into, in all material respects, in accordance with the relevant agreement governing such transaction; and

(3) nothing has come to the auditor's attention that causes it to believe that the transaction has exceeded the maximum aggregate annual value disclosed in the announcement of the Company dated 31 January 2013.

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 the Audit Committee on 9 April 2010 with written terms of reference in compliance with CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2013 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 29 to 41 of this annual report.

AUDITORS

A resolution will be submitted to the 2014 AGM to re-appoint PricewaterhouseCoopers as auditor of the Company.

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

Hong Kong, 18 March 2014

Independent Auditor's Report

羅兵咸永道

To the shareholders of O-Net Communications (Group) Limited
(Incorporated in the 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 58 to 131, which comprise the consolidated and company balance sheets as at 31 December 2013, 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.

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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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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 2013, 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, 18 March 2014

Consolidated Balance Sheet

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

	Note(s)	As at 31 December 2013 HKD'000	 2012 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**29,119**	28,885
Property, plant and equipment	7	**570,894**	447,510
Other non-current assets	8	**10,068**	11,462
Intangible assets	9	**155**	276
Investment in joint venture	14	**21,099**	–
Deferred income tax assets	23	**5,836**	4,316
Available-for-sale financial assets	11	**3,440**	–
Derivative financial instruments	12	**2,451**	–
		643,062	492,449
Current assets			
Inventories	15	**163,296**	177,071
Trade and other receivables	16	**317,958**	264,054
Other current assets		**1,776**	5,289
Pledged bank deposits	17	**19,539**	15,589
Term deposits with initial term of over three months	17	**155,662**	75,230
Cash and cash equivalents	17	**281,828**	558,937
		940,059	1,096,170
Total assets		**1,583,121**	1,588,619
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**7,239**	7,556
Share premium	18	**847,424**	893,360
Other reserves	19	**106,520**	65,272
Retained earnings	20	**412,875**	422,483
Total equity		**1,374,058**	1,388,671

Consolidated Balance Sheet

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

		As at 31 December	
		2013	2012
	Note(s)	**HKD'000**	HKD'000
LIABILITIES			
Non-current liabilities			
Deferred government grants	21	**6,118**	–
Current liabilities			
Trade and other payables	22	**199,876**	186,498
Current income tax liabilities		**2,082**	13,450
Amounts due to related parties		**987**	–
		202,945	199,948
Total liabilities		**209,063**	199,948
Total equity and liabilities		**1,583,121**	1,588,619
Net current assets		**737,114**	896,222
Total assets less current liabilities		**1,380,176**	1,388,671

The notes on pages 65 to 131 are an integral part of these consolidated financial statements.

The financial statements on pages 58 to 131 were approved by the Board of Directors on 18 March 2014 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 **2013** **HKD'000**	2012 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries	13	**507,195**	497,967
Current assets			
Trade and other receivables	16	**316,768**	209,503
Cash and cash equivalents	17	**126,768**	296,551
		443,536	506,054
Total assets		**950,731**	1,004,021
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**7,239**	7,556
Share premium	18	**847,424**	893,360
Other reserves	19	**75,119**	65,597
Retained earnings	20	**8,969**	25,902
Total equity		**938,751**	992,415
LIABILITIES			
Current liabilities			
Trade and other payables	22	**11,980**	11,606
Total liabilities		**11,980**	11,606
Total equity and liabilities		**950,731**	1,004,021
Net current assets		**431,556**	494,448
Total assets less current liabilities		**938,751**	992,415

The notes on pages 65 to 131 are an integral part of these consolidated financial statements.

The financial statements on pages 58 to 131 were approved by the Board of Directors on 18 March 2014 and were signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

Consolidated Income Statement

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

		Year ended 31 December	
		2013	2012
	Note(s)	**HKD'000**	HKD'000
Revenue	24	**661,502**	727,368
Cost of sales	25	**(449,724)**	(426,929)
Gross profit		**211,778**	300,439
Other gains – net	24	**6,896**	5,029
Selling and marketing costs	25	**(30,319)**	(37,141)
Research and development expenses	25	**(88,979)**	(73,137)
Administrative expenses	25	**(98,129)**	(93,355)
Operating profit		**1,247**	101,835
Finance income	27	**16,614**	13,119
Finance costs	27	**–**	(826)
Share of losses of joint venture investment	14	**(2,822)**	–
Profit before income tax		**15,039**	114,128
Income tax expenses	28	**(1,664)**	(16,318)
Profit for the year		**13,375**	97,810
Profit attributable to:			
Equity holders of the Company		**13,375**	97,810
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	31	**0.02**	0.13
– Diluted	31	**0.02**	0.13

The notes on pages 65 to 131 are an integral part of these consolidated financial statements.

		Year ended 31 December	
		2013	2012
	Note	**HKD**	HKD
Dividend	30	**–**	22,666

Consolidated Statement of Comprehensive Income

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

	Year ended 31 December	
	2013	2012
	HKD'000	HKD'000
Profit for the year	**13,375**	97,810
Other comprehensive income		
Items that may be reclassified to profit or loss		
Share of other comprehensive loss of investment in joint venture	**(23)**	–
Currency translation differences	**30,233**	(459)
Other comprehensive income for the year	**30,210**	(459)
Total comprehensive income for the year	**43,585**	97,351
Total comprehensive income attributable to:		
Equity holders of the Company	**43,585**	97,351

The notes on pages 65 to 131 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				
	Share capital (Note 18) HKD'000	Share premium (Note 18) HKD'000	Other reserves (Note 19) HKD'000	Retained earnings (Note 20) HKD'000	Total equity HKD'000
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 comprehensive income	–	–	(459)	97,810	97,351
Share option scheme – value of services (Note 35)	–	–	27,622	–	27,622
Repurchase and cancellation of shares	(444)	(81,752)	444	(444)	(82,196)
Dividends relating to 2011	–	–	–	(24,000)	(24,000)
Balance at 31 December 2012	7,556	893,360	65,272	422,483	1,388,671
Balance at 1 January 2013	**7,556**	**893,360**	**65,272**	**422,483**	**1,388,671**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**13,375**	**13,375**
Other comprehensive income					
Currency translation differences	**–**	**–**	**30,233**	**–**	**30,233**
Share of other comprehensive income of investment in joint venture	**–**	**–**	**(23)**	**–**	**(23)**
Total comprehensive income	**–**	**–**	**30,210**	**13,375**	**43,585**
Share option scheme – value of services (Note 35)	**–**	**–**	**10,721**	**–**	**10,721**
Repurchase of shares	**(317)**	**(45,936)**	**317**	**(317)**	**(46,253)**
Dividends relating to 2012	**–**	**–**	**–**	**(22,666)**	**(22,666)**
Balance at 31 December 2013	**7,239**	**847,424**	**106,520**	**412,875**	**1,374,058**

The notes on pages 65 to 131 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Note	**Year ended 31 December**	
		2013	2012
		HKD'000	HKD'000
Cash flows from operating activities			
Cash generated from operating activities	32	**40,869**	178,495
Interest paid		**–**	(826)
Income tax paid		**(14,392)**	(24,319)
Net cash from operating activities		**26,477**	153,350
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(145,924)**	(246,184)
Proceeds from government grant related to property, plant and equipment (Note 27)		**6,227**	–
Interest received		**4,274**	11,778
Proceeds from disposal of property, plant and equipment		**4,140**	2,185
Placements of term deposits with initial term of over three months		**(80,432)**	(24,530)
Payments of equity investments (Note 8, 11 and 14)		**(29,711)**	–
Net cash used in investing activities		**(241,426)**	(256,751)
Cash flows from financing activities			
Dividends paid to shareholders		**(22,666)**	(24,000)
Proceeds from borrowings		**–**	122,456
Repayments of borrowings		**–**	(122,456)
Repurchase of own shares		**(46,253)**	(82,196)
Net cash used in financing activities		**(68,919)**	(106,196)
Net decrease in cash and cash equivalents		**(283,868)**	(209,597)
Cash and cash equivalents at the beginning of the year		**558,937**	768,643
Exchange difference		**6,759**	(109)
Cash and cash equivalents at the end of the year		**281,828**	558,937

The notes on pages 65 to 131 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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 18 March 2014.

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 HKFRSs. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

HKAS 19, 'Employee benefits' was revised in June 2011. The changes on the group's accounting policies has been as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See Note 26 for the impact on the consolidated financial statements.

Amendment to HKFRS 7, 'Financial instruments: Disclosures', on asset and liability offseting. The amendments require new disclosure requirements which focus on quantitative information about recognized financial instruments that are offset in the statement of financial position, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

HKFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

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

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

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements.

HKAS 32 (Amendment) 'Financial instruments: Presentation' on asset and liability offsetting is effective for annual periods beginning on or after 1 January 2014.

Amendments to HKFRS 10, 12 and HKAS 27 on 'Consolidation for investment entities' is effective for annual periods beginning on or after 1 January 2014.

HKAS 36 (Amendment) 'Impairment of assets' on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014.

HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' - novation of derivatives is effective for annual periods beginning on or after 1 January 2014.

HKFRIC 21 'Levies' is effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 'Financial Instruments' is effective for annual periods beginning on or after 1 January 2015.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations

The Group applies the acquisition method to account for business combinations. 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, 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 acquisition date carrying value of the aquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

Business combinations (Continued)

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

2.2.2 Separate financial statements

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

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

2.3 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements as of 1 January 2013. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management team, including the chairman and the chief executive officer, who make strategic decisions.

2.5 Foreign Currency Translation

(a) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Before 1 September 2010, the Company adopted Renminbi Yuan ("RMB") as its functional currency. Following a change of its primary economic environment in response to the business expansion plan in the international market, the functional currency of the Company, together with its immediate wholly owned subsidiary, O-Net Communications Holdings Limited ("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 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 income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net '.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign Currency Translation *(Continued)*

(b) Transactions and Balances *(Continued)*

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in the available-for-sale revaluation reserve in other comprehensive income.

(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:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) 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

(iii) All resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.6 Land Use Right

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation and 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 cost to their residual values over their estimated useful lives, as follows:

Buildings	43 years
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 parties. 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

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, 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.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise they are classified as non-current.

(b) *Loans and receivables*

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 2.14 and 2.15).

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial Assets *(Continued)*

2.10.2 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 carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. 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. Available-for-sale financial assets financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. However, for available-for-sales financial assets that do not have a quoted market price, the range of reasonable fair value estimates is significant and the possibilities of the various estimates cannot be reasonably assessed, is stated at cost.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other gains when the Group's right to receive payments is established

2.11 Impairment of Financial Assets

(a) Assets carried at amortized cost

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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of Financial Assets *(Continued)*

(a) Assets carried at amortized cost *(Continued)*

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

(b) Assets classified as available for sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.12 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The derivative instrument are accounted for at fair value through profit or loss. Change in the fair value of any derivative instrument are recognized immediately in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 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.

2.14 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.

2.15 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.

2.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 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.

2.18 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Current and Deferred Income Tax *(Continued)*

(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.

2.19 Employee Benefits

(a) Employee Leave Entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) Pension Obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 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:

(i) including any market performance conditions (for example, an entity's share price);

(ii) 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

(iii) 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 35 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)*

2.20 Share-based Payments *(Continued)*

(a) Equity-settled share-based payment transactions *(Continued)*

If the terms of an equity-settled award are modified, at a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized 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 recognized for the award is recognized 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 recognized for that award, as at the date of forfeiture, is treated as if it had never been recognized. At the same time, any expense previously recognized on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

(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.

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

2.21 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Provisions *(Continued)*

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.

2.22 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.

2.23 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:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) the management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Research and Development Costs *(Continued)*

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) 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 2013 (2012 – Nil).

2.24 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.

2.25 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.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.26 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

3.1 Financial Risk Factor

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk and concentration risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities. 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.

At 31 December 2013, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD982,000 (2012 – 12,412,000) 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.

(ii) Cash flow and fair value interest rate risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets as at 31 December 2013 (2012 – 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 2013 (2012 – same).

(iii) Price risk

As at 31 December 2013, the Group did not hold any equity securities that were traded publicly. Accordingly, it was not exposed to commodity price risk (2012 – same) as at 31 December 2013.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(b) 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.

For cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months, management manages the credit risk 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 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.

(c) 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(c) Liquidity Risk *(Continued)*

The table below analyses the Group's and the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	**Less than 1 year** HK$'000
At 31 December 2013	
Trade and other payables	199,876
Amount due to related parties	987
At 31 December 2012	
Trade and other payables	186,498

Company	**Less than 1 year** HK$'000
At 31 December 2013	
Trade and other payables	11,980
At 31 December 2012	
Trade and other payables	11,606

(d) Concentration Risk

Revenue of approximately HKD309,107,927 (2012: HKD257,508,931) was derived from three customers, which occupied 47% (2012 – 35%) of the total revenue of the Group.

In the event that these three customers terminate their business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and result of operations.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital 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 2013 (2012 – same).

3.3 Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Quoted price (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) 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).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2013 (2012 – none).

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000
Assets			
Financial assets at fair value through profit or loss			
– Derivative financial instruments (Note 12)	–	2,451	2,451

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair Value Estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2013 (2012 - none):

	Financial assets at fair value through profit or loss – Derivative financial instruments – call option HK$'000
Opening balance	–
Option embedded in Investment in joint venture	2,575
Gains and losses recognized in profit or loss	(124)
Closing balance	2,451
Total gains or losses for the year included in profit or loss for assets held at the end of the year, under "Other gains – net"	(124)
Changes in unrealized gains or losses for the year included in profit or loss at the end of the year	(124)

The fair value of the call option is estimated by discounting the expected future cash flow of the joint venture with significant inputs including risk free rate, expected volatility, expected dividend yield and underlying share price as at the valuation date (Note 12).

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 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(a) Fair Value of Derivatives and Other Financial Instruments

As described in Note 12, the fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various foreign exchange contracts that are not traded in active markets.

(b) 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.

(c) 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.

(d) 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 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(e) Recognition of Share-based Compensation Expenses

As explained in more detail in Note 35, the Group had granted share options to its employees under the Post-IPO Share Option Scheme during the year ended 31 December 2013. 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.

The fair value of the newly granted options mentioned in Note 35 during the year ended 31 December 2013 was assessed to be approximately HKD13,777,000.

The Group has to estimate the expected yearly percentage of grantees of share options that will stay within the Group at the end of the vesting period ("Expected Retention Rate") in determining the amount of share-based compensation expenses to be charged into the consolidated income statement. As at 31 December 2013, the Expected Retention Rate was assessed to be approximately 88%.

If the Expected Retention Rate had been increased by 5 percentage points, the amount of share-based compensation expenses charged to the consolidated income statement for the year ended 31 December 2013 would be increased by approximately HKD263,000.

(f) Useful lives adopted for property, plant and equipment

The estimate of useful lives of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles.

If the estimated useful lives of property, plant and equipment had been higher/lower by 10% from management's estimates, the depreciation charge would have decreased/increased by HKD3,507,372 and HKD4,286,788, respectively.

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 2013 (2012 – same).

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

	2013	2012
	HKD'000	HKD'000
The PRC	**276,803**	288,786
Europe	**178,223**	203,008
North and South America	**43,876**	67,982
Other Asia countries excluding the PRC	**162,600**	167,592
	661,502	727,368

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2013 and 2012 are as follows:

	2013	2012
	HKD'000	HKD'000
The PRC	**605,991**	487,921
Hong Kong	**22,803**	74
USA	**2,541**	138
	631,335	488,133

5 SEGMENT REPORTING – GROUP *(Continued)*

(c) During the year ended 31 December 2013, revenue derived from sales made to three (2012 – three) external customers amounted to approximately 47% (2012 – 35%) of the Group's total revenue.

Revenue of approximately HKD162,322,000 and HKD96,398,000 (2012: HKD113,088,000 and HKD62,623,000) were derived from two external customers, amounts of which are more than 10% of the Group's total revenue, respectively.

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:

	2013 **HKD'000**	2012 HKD'000
Outside of Hong Kong		
– Lease of 50 years	**29,119**	28,885

	Land use right HKD'000
Year ended 31 December 2012	
Opening net book amount	29,541
Amortization charge	(648)
Translation difference	(8)
Closing net book amount	28,885
Year ended 31 December 2013	
Opening net book amount	28,885
Amortization charge	(660)
Translation difference	894
Closing net book amount	29,119

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 2013 was 43 years.

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Building	Machinery	Motor vehicles	Furniture, fitting & equipment	Construction in progress	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
At 1 January 2012						
Cost	–	41,183	1,753	196,445	126,701	366,082
Accumulated depreciation	–	(24,419)	(1,037)	(100,535)	–	(125,991)
Net book amount	–	16,764	716	95,910	126,701	240,091
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
Year ended 31 December 2013						
Opening net book amount	–	14,962	896	103,364	328,288	447,510
Transfer	382,916	–	–	–	(382,916)	–
Additions	–	8,135	635	32,331	108,563	149,664
Disposals	–	(940)	(36)	(2,424)	–	(3,400)
Depreciation	(5,640)	(1,398)	(415)	(31,128)	–	(38,581)
Translation difference	6,080	563	28	3,171	5,859	15,701
Closing net book amount	383,356	21,322	1,108	105,314	59,794	570,894
At 31 December 2013						
Cost	389,087	48,285	2,131	256,191	59,794	755,488
Accumulated depreciation	(5,731)	(26,963)	(1,023)	(150,877)	–	(184,594)
Net book amount	383,356	21,322	1,108	105,314	59,794	570,894

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

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

	2013 **HKD'000**	2012 HKD'000
Cost of sales	**26,283**	22,884
Selling and marketing costs	**111**	30
Research and development expenses	**5,712**	3,182
Administrative expenses	**6,475**	3,731
	38,581	29,827

(b) For the year ended 31 December 2013, lease rentals amounting to HKD5,313,000 (2012 – HKD11,143,000) 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 2013 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

	2013 **HKD'000**	2012 HKD'000
Prepayment for purchase of property, plant and equipment	**7,741**	11,462
Prepayment for equity investment	**2,327**	–
	10,068	11,462

9 INTANGIBLE ASSETS – GROUP

	Patent HKD'000	Computer software HKD'000	Total HKD'000
At 1 January 2012			
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
Year ended 31 December 2013			
Opening net book amount	60	216	276
Amortization charge	(30)	(96)	(126)
Translation difference	–	5	5
Closing net book amount	30	125	155
At 31 December 2013			
Cost	210	1,080	1,290
Accumulated amortization	(180)	(955)	(1,135)
Net book amount	30	125	155

The amortization charge has all been included in administrative expenses in the consolidated income statement (2012 – same).

10 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

Group	Loans and receivables	Assets at fair value through the profit and loss	Available-for-sale	Total
	HKD'000	HKD'000	HKD'000	HKD'000
Assets				
As at 31 December 2013:	–	–	–	–
Derivative financial instruments (Note 12)	–	2,451	–	2,451
Available-for-sale financial assets (Note 11)	–	–	3,440	3,440
Trade and other receivables excluding prepayment (Note 16)	311,613	–	–	311,613
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 17)	457,029	–	–	457,029
Total	**768,642**	**2,451**	**3,440**	**774,533**
As at 31 December 2012:				
Trade and other receivables excluding prepayments (Note 16)	260,368	–	–	260,368
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 17)	649,756	–	–	649,756
Total	**910,124**	**–**	**–**	**910,124**

	Borrowing and payments
	HKD'000
Liabilities	
As at 31 December 2013:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 22)	171,318
As at 31 December 2012:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 22)	164,185

10 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(Continued)

Company	**Loans and receivables** HKD'000
Assets	
As at 31 December 2013:	
Trade and other receivables (Note 16)	316,768
Cash and cash equivalents and term deposits with initial term of over three months (Note 17)	126,768
Total	443,536
As at 31 December 2012:	
Trade and other receivables (Note 16)	209,503
Cash and cash equivalents and term deposits with initial term of over three months (Note 17)	296,551
Total	506,054

	Borrowing and payments HKD'000
Liabilities	
As at 31 December 2013:	
Trade and other payables (Note 23)	11,980
As at 31 December 2012:	
Trade and other payables (Note 23)	11,606

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS - GROUP

	2013 **HKD'000**
Addition	**3,440**
At 31 December of the year, all non-current portion	**3,440**

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS - GROUP *(Continued)*

Available-for-sale financial assets is the Group's unlisted equity interest (denominated in USD) in company established in Germany.

Given that these assets do not have quoted marked price, the range of reasonable fair value estimated is significant and the possibilities of the estimated cannot be reasonably assessed, they are measured at cost less impairment at balance sheet date.

12 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

	2013	
	Assets HK$'000	**Liabilities HK$'000**
Call option embedded in investment in a joint venture (Note 14)	**2,451**	–

During the year, the Group invested in a joint venture in 2013 and as stipulated in the investment agreements, the Group was granted an option to acquire from the joint venture partner a 35% interest of the shares of the joint venture at a fixed purchase price of USD10,000,000 during a period from 4 June 2013 to 4 June 2017.

The movement of above call option is set out below:

	2013 HKD'000
Opening balance	–
Call option in relation to investment in a joint venture	**2,575**
Gains and losses recognized in profit or loss	**(124)**
Closing balance	**2,451**

The fair value of the call option is estimated by discounting the expected future cash flow of the joint-venture with significant inputs as follows:

Fair value of the joint venture	USD2,928,811
Risk-free rate	1.03%
Expected volatility	56.24%
Expected dividend yield	0.00%

13 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2013 HKD'000	2012 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)	**73,713**	64,485
	507,195	497,967

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

The capital contribution relating to share based payment granted by the Company to employees of subsidiary undertakings in the Group. Refer to Note 35 for further details on the Group's share option schemes.

(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 35).

As at 31 December 2013, 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 Automation Technology (Shenzhen) Limited	10 May 2013	Shenzhen, the PRC	RMB50,000,000	–	100%	Design, manufacturing and sales of automation products, Shenzhen, the PRC
O-Net Communications (USA), Inc. ("O-Net USA")	20 August 2012	USA	USD100	–	100%	Research and development centre with major operation in USA
O-Net Automation Technology (HK) Limited	27 Jun 2012	Hong Kong	HKD10,000	–	100%	Investment holding
O-Net BVI	6 November 2006	BVI	USD28,991	100%	–	Investment holding
O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen")	23 October 2000	Shenzhen, the PRC	HKD300,000,000	–	100%	Design, manufacturing and sales of optical networking products, Shenzhen, the PRC
O-Net Communications (HK) Limited	25 September 2000	Hong Kong	HKD1,000,000	–	100%	Sales of optical networking products, Hong Kong

All the above subsidiaries are limited liability companies.

14 INVESTMENT IN JOINT VENTURE – GROUP

	2013 HKD'000
Additions (a)	**23,944**
Share of loss	**(2,822)**
Other comprehensive loss	**(23)**
At 31 December	**21,099**

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

(a) Nature of investment in joint ventures

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
O-Net Wave Touch Limited ("O-Net WaveTouch")	Hong Kong	40%	Note 1	Equity

Note 1:

O-Net WaveTouch was incorporated in Hong Kong by the Group for the purpose of the development of the wave touch technology together with an independent third party pursuant to an investment agreement signed on 4 June 2013. According to the Memorandum and Article of Association of O-Net WaveTouch ("O-Net WaveTouch M&A"), the Group has joint control with the counter party over O-Net WaveTouch as unanimous consent is required from both parties for all significant day-to-day operating activities, future capital fund raising as well as future business development. Despite the Group was granted an option to acquire from the counter party an additional 35% of the shares of O-Net WaveTouch at fixed purchase price of USD10,000,000 from 4 June 2013 to 4 June 2017 (Note 12), unanimous consent is still required from both parties for all above-mentioned business activities. Accordingly, the investment in O-Net WaveTouch has been accounted for as a joint venture by the Group.

O-Net WaveTouch is a private company with no quoted market price.

There are no contingent liabilities relating to the Group's interest in the joint venture.

14 INVESTMENT IN JOINT VENTURE – GROUP *(Continued)*

(b) Summarized financial information for joint ventures

Set out below are the summarized financial information for O-Net WaveTouch which is accounted for using the equity method.

Summarized balance sheet

	2013 HKD'000
Current	
Cash and cash equivalents	**16,901**
Other current assets	**81**
Total current assets	**16,982**
Current liabilities	**(757)**
Total current liabilities	**(757)**
Non-current	
Total non-current assets	**36,524**
Net assets	**52,749**

Summarized statement of comprehensive income

	2013 HKD'000
Revenue	**–**
Research and development costs	**(3,351)**
Administrative expenses	**(3,705)**
Loss before income tax	**(7,056)**
Income tax expense	**–**
Loss for the year	**(7,056)**
Other comprehensive loss	**(55)**
Total comprehensive loss	**(7,111)**

14 INVESTMENT IN JOINT VENTURE – GROUP *(Continued)*

(b) Summarized financial information for joint ventures *(Continued)*

The information above reflects the amounts as presented in the financial statements of O-Net WaveTouch, and not O-Net Communications (Group) Limited's share of those amounts.

(c) Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of the Group's interest in the joint venture is as follows:

Summarized financial information

	2013 **HKD'000**
Opening net assets as at date of investment	**59,860**
Loss for the period	**(7,056)**
Other comprehensive loss	**(55)**
Closing net assets	**52,749**
Interest in joint venture (40%)	**21,099**
Carrying value	**21,099**

15 INVENTORIES – GROUP

	2013 **HKD'000**	2012 HKD'000
Cost:		
Raw materials	**64,555**	62,407
Work-in-progress	**62,119**	61,856
Finished goods	**51,599**	59,079
	178,273	183,342
Less: provision for write-down of inventories to net realizable values	**(14,977)**	(6,271)
	163,296	177,071

15 INVENTORIES – GROUP *(Continued)*

For the year ended 31 December 2013, the cost of inventories recognized as cost of sales, selling and marketing costs, research and development expenses and administrative expenses amounted to HKD337,500,000 (2012 – HKD302,865,000).

For the year ended 31 December 2013, the Group made provision for write-down of inventories to net realizable values of approximately HKD8,375,000 (2012 – HKD1,842,000). These amounts have been included in cost of sales in the consolidated income statement.

16 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	HKD'000	HKD'000	**HKD'000**	HKD'000
Trade receivables (a)	**252,175**	215,109	**–**	–
Less: provision for impairment of receivables (b)	**(480)**	(509)	**–**	–
Trade receivables – net	**251,695**	214,600	**–**	–
Amounts due from related parties (Note 34(d))	**3,886**	1,055	**–**	–
Amounts due from subsidiaries	**–**	–	**278,729**	171,503
Bills receivable (c)	**45,199**	38,604	**–**	–
Prepayments	**6,345**	3,686	**–**	–
Interest receivables	**3,056**	2,290	**39**	–
Other receivables	**7,777**	3,819	**–**	–
Dividend receivables	**–**	–	**38,000**	38,000
	317,958	264,054	**316,768**	209,503

As at 31 December 2013, the fair value of trade and other receivables of the Group and the Company approximated their carrying amounts (2012 – same).

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

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

	Group		Company	
	2013	2012	**2013**	2012
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**181,221**	138,737	**–**	–
USD	**127,056**	122,226	**–**	–
HKD	**2,900**	451	**316,768**	209,503
JPY	**6,781**	2,640	**–**	–
	317,958	264,054	**316,768**	209,503

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:

(a) Trade receivables (including amounts due from related parties)

	Group	
	2013	2012
	HKD'000	HKD'000
Within 30 days	**95,680**	63,113
31 to 60 days	**69,034**	57,833
61 to 90 days	**54,618**	58,387
91 to 180 days	**27,166**	33,959
181 to 365 days	**5,713**	1,507
Over 365 days	**3,850**	1,365
	256,061	216,164

As at 31 December 2013, trade receivables of HKD73,805,000 (2012 – HKD65,801,000) 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.

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

(a) Trade receivables (including amounts due from related parties) *(Continued)*

The ageing analysis of these past due trade receivables is as follows:

	Group	
	2013	2012
	HKD'000	HKD'000
Past due 1 to 90 days	**58,554**	59,766
Past due 91 to 180 days	**12,343**	4,680
Past due 181 to 365 days	**2,338**	751
Past due over 365 days	**570**	604
	73,805	65,801

As at 31 December 2013, trade receivables of HKD480,000 (2012 – HKD509,000) 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	
	2013	2012
	HKD'000	HKD'000
Past due over 365 days	**480**	509

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

	Group	
	2013	2012
	HKD'000	HKD'000
Opening balance	**509**	1,346
Write-back of impairment	**(40)**	(834)
Translation difference	**11**	(3)
Closing balance	**480**	509

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

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

Bills receivable	**Group**	
	2013	2012
	HKD'000	HKD'000
Within 30 days	**8,772**	6,703
31 to 90 days	**14,550**	6,774
91 to 180 days	**21,877**	25,127
	45,199	38,604

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.

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

	Group		**Company**	
	2013	2012	**2013**	2012
	HKD'000	HKD'000	**HKD'000**	HKD'000
Cash and cash equivalents	**281,828**	558,937	**126,768**	296,551
Term deposits with initial term of over three months	**155,662**	75,230	**–**	–
Pledged bank deposits (a)	**19,539**	15,589	**–**	–
	457,029	649,756	**126,768**	296,551

(a) 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.

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

(b) 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	
	2013	2012	**2013**	2012
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**404,930**	529,477	**118,546**	275,293
USD	**45,708**	96,644	**5,348**	1,930
HKD	**6,327**	23,573	**2,874**	19,328
EUR	**64**	62	**–**	–
	457,029	649,756	**126,768**	296,551

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 2013 was 2.84% (2012 – 3.46 %).

18 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	39,000,000	390,000
Increase in authorized share capital on 9 April 2010	9,961,000,000	99,610,000
As at 31 December 2012 and 2013	10,000,000,000	100,000,000

18 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
As at 31 December 2011	799,987,240	8,000	975,112
Repurchase and cancellation of shares during the year (a)	(44,438,000)	(444)	(81,752)
As at 31 December 2012	755,549,240	7,556	893,360
Repurchase and cancellation of shares during the year (b)	(31,679,000)	(317)	(45,936)
As at 31 December 2013	723,870,240	7,239	847,424

(a) During the year ended 31 December 2012, the Company repurchased and cancelled 44,438,000 ordinary shares.

(b) During the year ended 31 December 2013 the Company repurchased and cancelled 31,679,000 ordinary shares.

19 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	Share of other comprehensive loss of investment in joint venture HKD'000	Total HKD'000
Balance at 1 January 2012	331	61,087	(85,421)	61,668	–	37,665
Share option scheme – value of services (Note 26)	–	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
Balance at 1 January 2013	775	88,709	(85,421)	61,209	–	65,272
Share option scheme – value of services (Note 26)	–	10,721	–	–	–	10,721
Repurchase of shares	317	–	–	–	–	317
Currency translation differences	–	–	–	30,233	–	30,233
Share of other comprehensive loss of joint venture	–	–	–	–	(23)	(23)
Balance at 31 December 2013	1,092	99,430	(85,421)	91,442	(23)	106,520

(a) The Company undertook a reorganization during the year ended 31 December 2010. The share capital and share premium in the consolidated financial statements as at 1 January 2012 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.

19 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 2012	331	36,958	2,127	39,416
Share option scheme – value of services	–	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
Balance at 1 January 2013	775	64,485	337	65,597
Share option scheme – value of services	–	10,632	–	10,632
Repurchase of shares	317	–	–	317
Currency translation differences	–	–	(1,427)	(1,427)
Balance at 31 December 2013	1,092	75,117	(1,090)	75,119

20 RETAINED EARNINGS – GROUP AND COMPANY

	Group HKD'000	Company HKD'000
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
Balance at 1 January 2013	422,483	25,902
Repurchase of shares	(317)	(317)
Profit for the year	13,375	6,050
Dividends relating to 2012	(22,666)	(22,666)
Balance at 31 December 2013	412,875	8,969

21 DEFERRED GOVERNMENT GRANTS

	Group HK$'000
Receipt of grant during the year (a)	6,227
Credited to income statement	(354)
Currency translation difference	245
At 31 December 2013	6,118

The amount represented subsidy granted by local government authority in the PRC relating to high technology research and development program amounted to RMB5,000,000 (equivalent to HKD6,227,070) in 2013.

The deferred government grants are amortized to other gains from the point at which the relevant assets are ready for use on a straight-line basis over the assets' useful lives

22 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2013 HKD'000	2012 HKD'000	**2013 HKD'000**	2012 HKD'000
Trade payables (a)	**118,501**	113,892	**–**	–
Amounts due to subsidiaries	**–**	–	**11,930**	11,556
Bills payable (c)	**1,367**	4,329	**–**	–
Accrued expenses	**12,309**	10,608	**50**	50
Payroll payable	**17,756**	20,717	**–**	–
Other payables	**39,141**	35,356	**–**	–
Advance from customers	**6,597**	533	**–**	–
Other taxes payable	**4,205**	1,063	**–**	–
	199,876	186,498	**11,980**	11,606

As at 31 December 2013, the fair value of trade and other payables of the Group and the Company approximated their carrying amounts due to their short maturities (2012 – same).

22 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

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

	Group	
	2013	2012
	HKD'000	HKD'000
Within 30 days	**36,135**	37,867
31 days to 60 days	**36,758**	30,212
61 days to 180 days	**41,566**	41,167
181 days to 365 days	**367**	2,017
Over 365 days	**3,675**	2,629
	118,501	113,892

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

	Group		Company	
	2013	2012	**2013**	2012
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**175,639**	144,390	**11,930**	11,556
USD	**10,960**	33,906	**–**	–
HKD	**12,983**	7,967	**50**	50
JPY	**294**	235	**–**	–
	199,876	186,498	**11,980**	11,606

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

Bills payable	Group	
	2013	2012
	HKD'000	HKD'000
Within 30 days	**171**	–
31 to 90 days	**1,196**	–
91 to 180 days	**–**	4,329
	1,367	4,329

23 DEFERRED INCOME TAX – GROUP

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

	2013	2012
	HKD'000	HKD'000
Deferred income tax assets:		
– to be recovered within 12 months	**5,276**	3,898
– to be recovered after more than 12 months	**560**	418
	5,836	4,316
Deferred income tax liabilities:	**–**	–

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

	2013	2012
	HKD'000	HKD'000
Deferred tax assets:		
Beginning of the year	**4,316**	4,019
Charged to the consolidated income statement (Note 28)	**1,360**	296
Translation difference	**160**	1
End of the year	**5,836**	4,316

23 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	Deferred government grants HKD'000	Accrued expenses HKD'000	Total HKD'000
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
At 1 January 2013	440	998	–	2,878	4,316
Credited/(charged) to the consolidated income statement	(84)	1,250	903	(709)	1,360
Translation difference	14	52	15	79	160
At 31 December 2013	370	2,300	918	2,248	5,836

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 2013 (2012 – same).

As at 31 December 2013, deferred income tax liabilities of approximately HKD41,565,000 (2012: HKD39,721,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD416 million (2012: HKD397 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 2013 (2012 – same).

24 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 2013 and 2012 are as follows:

	2013	2012
	HKD'000	HKD'000
Revenue		
Sales of goods	**661,502**	727,368
Other gains – net		
Government grants (a)	**1,552**	5,150
Rental income (Note34(b))	**1,964**	–
Gain on sales of scrapped or surplus raw materials	**971**	755
Loss on disposal of property, plant and equipment – net	**(740)**	(877)
Investment income	**3,228**	–
Fair value gain on derivative financial instruments	**(124)**	–
Others	**45**	1
	6,896	5,029
Total	**668,398**	732,397

(a) Other than the subsidy mentioned in Note 21 relating to high technology research and development program amounted to RMB5,000,000 of which RMB282,000 were recognized in the consolidated income statement in 2013, the remaining was mainly received from the Finance Committee of Shenzhen Municipality as a special fund for the development of private and small and medium enterprises.

25 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:

	2013 **HKD'000**	2012 HKD'000
Staff costs – excluding share options granted to directors and employees (Note 26)	**198,802**	198,353
Share option expenses – for options granted to directors and employees (Note 26)	**10,721**	27,622
Raw materials consumed (Note 15)	**328,059**	352,753
Changes in inventories of finished goods and work in progress (Note 15)	**9,441**	(49,888)
Depreciation (Note 7)	**38,581**	29,827
Amortization (Notes 6, 9)	**786**	871
Write back of impairment provision for doubtful receivables (Note 16)	**(40)**	(834)
Provision for write-down of inventories (Note 15)	**8,375**	1,842
Sales commissions	**13,696**	18,331
Utilities charges	**31,705**	18,820
Operating lease rental (Note 7)	**5,313**	11,143
Freight charges	**5,349**	4,942
Auditors' remuneration	**2,451**	2,570
Professional expenses	**1,642**	1,647
Travelling expenses	**3,224**	2,572
Advertising costs	**1,296**	1,165
Others	**7,750**	8,826
	667,151	630,562

26 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS – GROUP

	2013 **HKD'000**	2012 HKD'000
Salaries, bonus and other welfares	**185,410**	187,847
Pension – defined contribution plans (a)	**13,392**	10,506
Share options granted to directors and employees (Note 25)	**10,721**	27,622
	209,523	225,975

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

(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 2013 and 2012, 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 2013 is set out below:

Name of director	Fees	Salary	Share Options expense	Other benefits and allowance	Pension Scheme contribution	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Mr. Na Qinglin	–	1,700	–	800	15	2,515
Mr. Chen Zhujiang	–	150	–	–	–	150
Mr. Huang Bin	–	150	–	–	–	150
Mr. Tam Man Chi	–	150	–	–	–	150
Mr. Deng Xinping	300	–	107	–	–	407
Mr. Ong Chor Wei	300	–	107	–	–	407
Mr. Zhao Wei	300	–	–	–	–	300
	900	2,150	214	800	15	4,079

26 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 2012 is set out below:

Name of director	Fees	Salary	Share Options expense	Other benefits and allowance	Pension Scheme contribution	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Mr. Na Qinglin (i)	–	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	117	–	–	–	–	117
	707	1,990	534	649	28	3,908

(i) Mr Na QingLin is also the chief executive of the Company. As mentioned in Note 35(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 recognized for services received over the remainder of the respective vesting periods amounting to HKD4,265,734 was recognized as an expense in 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 2013 (2012 – one), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2012 – four) individuals are as follows:

	2013	2012
	HKD'000	HKD'000
Basic salaries	**4,533**	4,759
Pension costs	**45**	84
Bonus	**627**	1,212
Share option expenses	**2,345**	5,421
	7,550	11,476

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

(c) Five Highest Paid Individuals *(Continued)*

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

	2013	2012
Emolument bands		
HKD1,500,001 – HKD2,000,000	**–**	–
HKD2,000,001 – HKD2,500,000	**1**	3
HKD2,500,001 – HKD3,000,000	**3**	1
HKD3,500,001 – HKD4,000,000	**–**	1
HKD4,000,001 – HKD4,500,000	**1**	–

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 2013 (2012 – same).

27 FINANCE (INCOME)/ COSTS – NET – GROUP

	2013 **HKD'000**	2012 HKD'000
Finance income		
– Interest income derived from bank deposits and other investment	**(5,040)**	(12,390)
– Exchange gain	**(11,574)**	(729)
Finance costs		
– Interest expenses on bank trade finance borrowings	**–**	826
Finance income – net	**(16,614)**	(12,293)

28 INCOME TAX EXPENSES – GROUP

	2013 HKD'000	2012 HKD'000
Current income		
– Hong Kong profits tax (b)	**450**	4,828
– PRC enterprise income tax (c)	**2,574**	11,786
Total current income tax	**3,024**	16,614
Deferred income tax (Note 23)	**(1,360)**	(296)
Income tax expenses	**1,664**	16,318

(a) The Company and O-Net BVI the Company's immediate wholly-owned subsidiary are not subject to profits tax in their jurisdictions.

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

(c) 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 2012 to 2014.

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:

	2013 HKD'000	2012 HKD'000
Profit before income tax	**15,039**	114,128
Tax calculated at statutory tax rates applicable to entities comprising the Group	**3,407**	28,532
Tax effect of:		
Preferential tax concession	**(3,068)**	(13,068)
Income not subject to tax	**(1,433)**	(6,125)
Expenses not deductible for tax purposes		
– Share option expenses	**2,680**	6,906
– Others	**78**	73
Income tax expenses	**1,664**	16,318

29 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 HKD5,733,000 (2012 – HKD25,588,000).

30 DIVIDENDS

The Board does not recommend any final dividend for year ended 31 December 2013 at the upcoming Annual General Meeting of the Company (2012 – HKD0.03 per share).

31 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.

	2013	2012
Profit attributable to equity holders of the Company (HKD'000)	**13,375**	97,810
Weighted average number of ordinary shares in issue (thousands)	**741,362**	776,814
Basic EPS (HKD per share)	**0.02**	0.13

(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).

31 EARNINGS PER SHARE – GROUP *(Continued)*

(b) Diluted *(Continued)*

	2013	2012
Profit attributable to equity holders of the Company (HKD'000)	**13,375**	97,810
Weighted average number of ordinary shares in issue (thousands shares)	**741,362**	776,814
Adjustments for share options (thousands shares) (i)	**–**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**741,362**	776,814
Diluted EPS (HKD per share)	**0.02**	0.13

(i) 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.

32 CASH GENERATED FROM OPERATIONS – GROUP

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

	2013 HKD'000	2012 HKD'000
Profit before income tax	**15,039**	114,128
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 9)	**39,367**	30,698
Provision for write-down of inventories (Note 15)	**8,375**	1,842
Write-back of impairment provision for doubtful receivables (Note 16)	**(40)**	(834)
Gain on disposal of property, plant and equipment	**(740)**	(877)
Interest income (Note 27)	**(5,040)**	(12,390)
Interest expenses (Note 27)	**–**	826
Share of losses of joint venture investment (Note 14)	**2,822**	–
Investment income and fair value gains of derivative financial instruments (Note 24)	**(3,104)**	–
Share options granted to sales distributors, directors and employees (Note 25)	**10,721**	27,622
Changes in working capital:		
– Inventories	**5,069**	(63,469)
– Trade and other receivables	**(73,058)**	(4,344)
– Trade and other payables	**45,406**	34,629
– (Increase)/decrease in pledged bank deposits	**(3,948)**	50,664
Cash generated from operating activities	**40,869**	178,495

Non-cash transactions

During the year ended 31 December 2013, the Group settled an outstanding payable balance of approximately HKD21,411,000 (2012 – HKD35,927,000) due to several suppliers by endorsing certain bills receivable by the Group.

33 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:

	2013 **HKD'000**	2012 HKD'000
Not later than one year	**2,326**	6,696
Later than one year	**5,970**	6,452
	8,296	13,148

Capital Commitments

	2013 **HKD'000**	2012 HKD'000
Capital expenditure contracted for but not provided	**67,483**	118,301
Capital expenditure authorized but not contracted	**–**	–

34 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. ("Butterfly")	Controlled by key management personnel of the Company.
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.

34 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 2013 and 2012:

Non-recurring transactions

	2013 **HKD'000**	2012 HKD'000
Sales of goods		
Qingdao Hisense (i)	**5,791**	3,593
Butterfly	**200**	257
	6,047	3,850
Purchases of fixed assets from a related party		
Butterfly	**663**	–
	663	–
Rental income received from a related party		
Butterfly	**1,964**	–
	1,964	–

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.

(i) The transactions between the Group and Qingdao Hisense were disclosed since 20 July 2012, the day Qingdao Hisense became a related party.

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

(c) Key management includes directors (executive and non-executive), the Company secretary, the president's office, the heads of O-Net Automation and the heads of the 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:

	2013 **HKD'000**	2012 HKD'000
Salaries, bonus and other welfares	**188,767**	10,291
Pension – defined contribution plans	**119**	126
Share option expenses	**7,377**	10,413
	196,263	20,830

(d) Balances with Related Parties

In 2013 and 2012, the Group had the following balances with related parties:

	2013 HKD'000		2012 HKD'000	
	At end of the year	**Maximum outstanding during the year**	At end of the year	Maximum outstanding during the year
Trade receivables (i)				
Qingdao Hisense	**3,886**	**3,886**	756	7,279
Butterfly	**–**	**–**	299	299
	3,886	**3,886**	1,055	7,578
Other trade payables (i)				
Butterfly	**987**	**987**	–	–
	987	**987**	–	–

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

35 SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

Under the Pre-IPO Share Option Scheme, three types of share options are granted to those grantees with zero exercise price and with graded or non-graded vesting period over 1 to 3 years. As of 31 December 2013, the outstanding number of share options under the pre-IPO share option scheme was 975,987 (2012: 1,430,316 shares) with the expiry dates between April 2015 an October 2016.

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 were 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 were recognized in the consolidated income statement of the Group.

(b) Post-IPO Share Option Scheme

During the years ended 31 December 2013, 2012 and 2011, 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.

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 2013	Exercise price	Vesting date
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.

35 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 2013	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	27,464,000	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.

35 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 2013	Exercise price	Vesting date
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.
22 April 2013	Tranche 1: 200,000 Tranche 2: 2,350,000 Tranche 3: 350,000 Total: 2,900,000	2,550,000	HKD1.680	Tranche 1 (for certain employees): vesting period commences at 12 Feb 2014, equally over a period of 5 years. Tranche 2 (for certain employees): vesting period commences at 3 Mar 2014, equally over a period of 5 years. Tranche 3 (for certain employees): vesting period commences at 7 April 2014, equally over a period of 5 years
11 Sep 2013	Tranches 1, 2, 3, 4 & 5: 400,000 Total: 2,000,000	2,000,000	HKD1.708	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 11 Sep 2014, equally over a period of 5 years.

35 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 2013	Exercise price	Vesting date
25 Sep 2013	Tranches 1, 2, 3, 4 & 5: 70,000 Total: 350,000	350,000	HKD1.652	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 13 Aug 2014, equally over a period of 5 years.
16 Oct 2013	Tranches 1, 2, 3, 4 : 1,000,000 Total: 4,000,000	4,000,000	HKD1.628	Tranches 1, 2, 3, 4 (for certain employees): vesting period commences at 14 Oct 2014, equally over a period of 4 years.
8 Nov 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000 Total: 10,300,000	10,300,000	HKD1.484	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 8 Nov 2014, equally over a period of 5 years.

All the share options granted above will lapse on 9 April 2020.

35 SHARE OPTION SCHEMES *(Continued)*

(c) Movements in the number of share options outstanding and their related weighted average exercise prices

	2013		2012	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**1.90**	**39,928**	3.76	48,116
Granted	**1.56**	**19,550**	1.90	35,851
Cancelled (Note 1 and 2)	**–**	**–**	3.93	(40,651)
Forfeited	**1.89**	**(5,838)**	1.90	(3,280)
Exercised	**–**	**–**	–	(108)
At 31 December	**1.76**	**53,640**	1.90	39,928

As at 31 December 2013, out of the 53,640,000 outstanding options (2012 – 39,928,000 shares) 22,984,375 options (2012 – 16,347,028 shares) were exercisable. No options were exercised in 2013 (2012 – 108,000 shares).

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 HKD3.13 and HKD5.37 respectively, on 1 June 2012, the Company cancelled 40,651,000 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 HKD1.91. 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 recognized 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) HKD3.00 - For the Replacement Options which can be allowed to be exercisable on or before 2 June 2013; and

(ii) HKD3.50 - For the Replacement Options which can be allowed to be exercisable on or after 13 July 2013.

35 SHARE OPTION SCHEMES *(Continued)*

(c) Movements in the number of share options outstanding and their related weighted average exercise prices *(Continued)*

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 shares granted to him in previous years. The fair value that otherwise would have been recognized for services received over the remainder of the respective vesting periods was recognized as an expense in the consolidated income statement immediately.

(d) The share options outstanding at the end of the year has following expiry date and exercise prices

Expiry date	Average Exercise price in HKD per share option as at year ended 2013	Options (thousands)	
		2013	2012
2015*	–	**290**	425
2016*	–	**686**	1,005
2020	1.78	**52,664**	38,498

* Only the outstanding share options under pre-IPO share scheme will be expired in 2015 and 2016. As the exercise price of pre-IPO share scheme is zero, the average exercise price is zero.

The weighted average fair value of options granted during 2013 was determined using the Trinomial valuation model was HKD1.56 per option (2012: HKD1.90). The significant inputs into the model were exercise price shown above, volatility of 61.688% (2012: 60.411%), dividend yield of 1.75% (2012: 1.50%), an expected option life of 6.62 years (2012: 7.84), expected retention rate of the employees at 88% (2012: same), and an annual risk-free interest rate of 1.212% (2012: 0.717%). The volatility measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices over the last five years. See Note 26 for the total expense recognized in the income statement for share options granted to directors and employees.

36 SUBSEQUENT EVENT

On 27 Jan 2014, the Group subscribed 6,304,116 preferred shares of ArtIC Photonics Inc. ("ArtIC"), representing around 38% of the issued share capital of ArtIC, with a cash consideration of USD3,100,000 (equivalent to approximately HKD24,042,050). ArtIC is a company incorporated in Canada, which is engaged in the custom design and fabless development of photonic integrated circuit chips for use in optical component products in telecom and datacom markets.

Five-Year Financial Summary

CONSOLIDATED INFORMATION

For the year ended 31 December

	2013	2012	2011	2010	2009
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Profitability and operating data					
Turnover	**661,502**	727,368	669,381	660,577	338,385
Gross profit	**211,778**	300,439	299,836	337,816	153,248
Selling and marketing costs	**30,319**	37,141	35,275	33,035	17,436
Research and development expenses	**88,979**	73,137	50,854	31,828	16,875
Administrative expenses	**98,129**	93,355	90,241	67,305	31,445
Profit before tax	**15,039**	114,128	154,195	203,729	88,507
Profit for the year	**13,375**	97,810	133,449	181,609	79,160
Profitability ratios					
Gross profit margin	**32.0%**	41.3%	44.8%	51.1%	45.3%
Profit before tax margin	**2.3%**	15.7%	23.0%	30.8%	26.2%
Net profit margin	**2.0%**	13.4%	19.9%	27.5%	23.4%
Operating ratios					
(as a percentage of revenue)					
Selling and marketing costs	**4.6%**	5.1%	5.3%	5.0%	5.2%
Research and development expenses	**13.5%**	10.1%	7.6%	4.8%	5.0%
Administrative expenses	**14.8%**	12.8%	13.5%	10.2%	9.3%

AS AT 31 DECEMBER

	2013	2012	2011	2010	2009
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Assets and liabilities data					
Non-current assets	**643,062**	492,449	274,151	114,646	69,973
Current assets	**940,059**	1,096,170	1,295,569	1,303,163	252,345
Non-current liabilities	**6,118**	–	–	–	–
Current liabilities	**202,945**	199,948	199,826	168,467	133,937
Equity	**1,374,058**	1,388,671	1,369,894	1,249,342	188,381