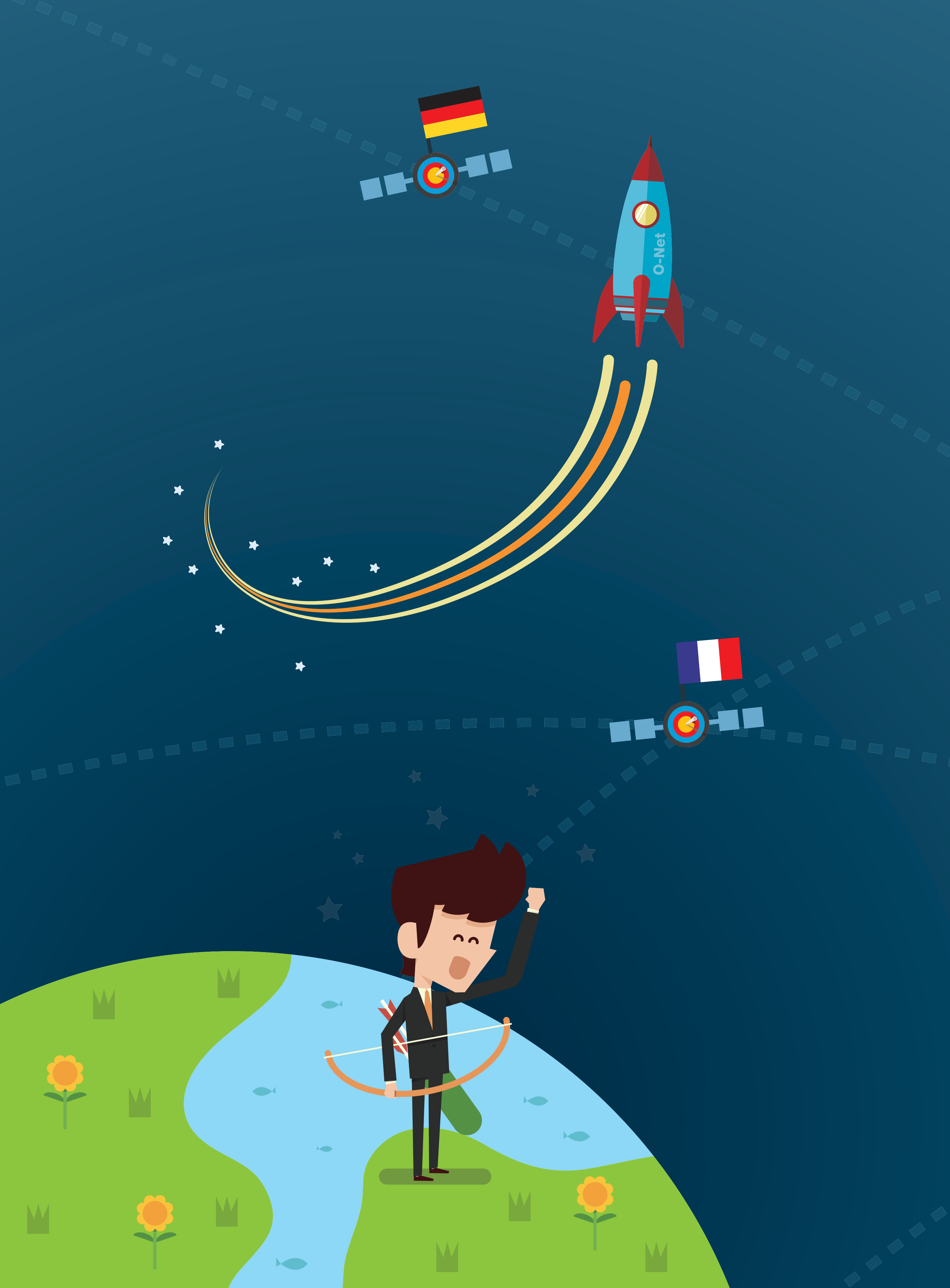
CREATE OUR FUTURE

O-Net
Communications (Group) Limited ▶ Annual Report 2014 (Incorporated in the Cayman Islands with limited liability) (Stock Code: 877)

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report 2014 contains certain forward-looking statements with respect to the financial conditions, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, that include wordings like "potential", "estimated", "expects", "anticipates", "objective", "intends", "plans", "believes", "estimates", and similar expressions or variations on such expressions may be considered "forward-looking statements".

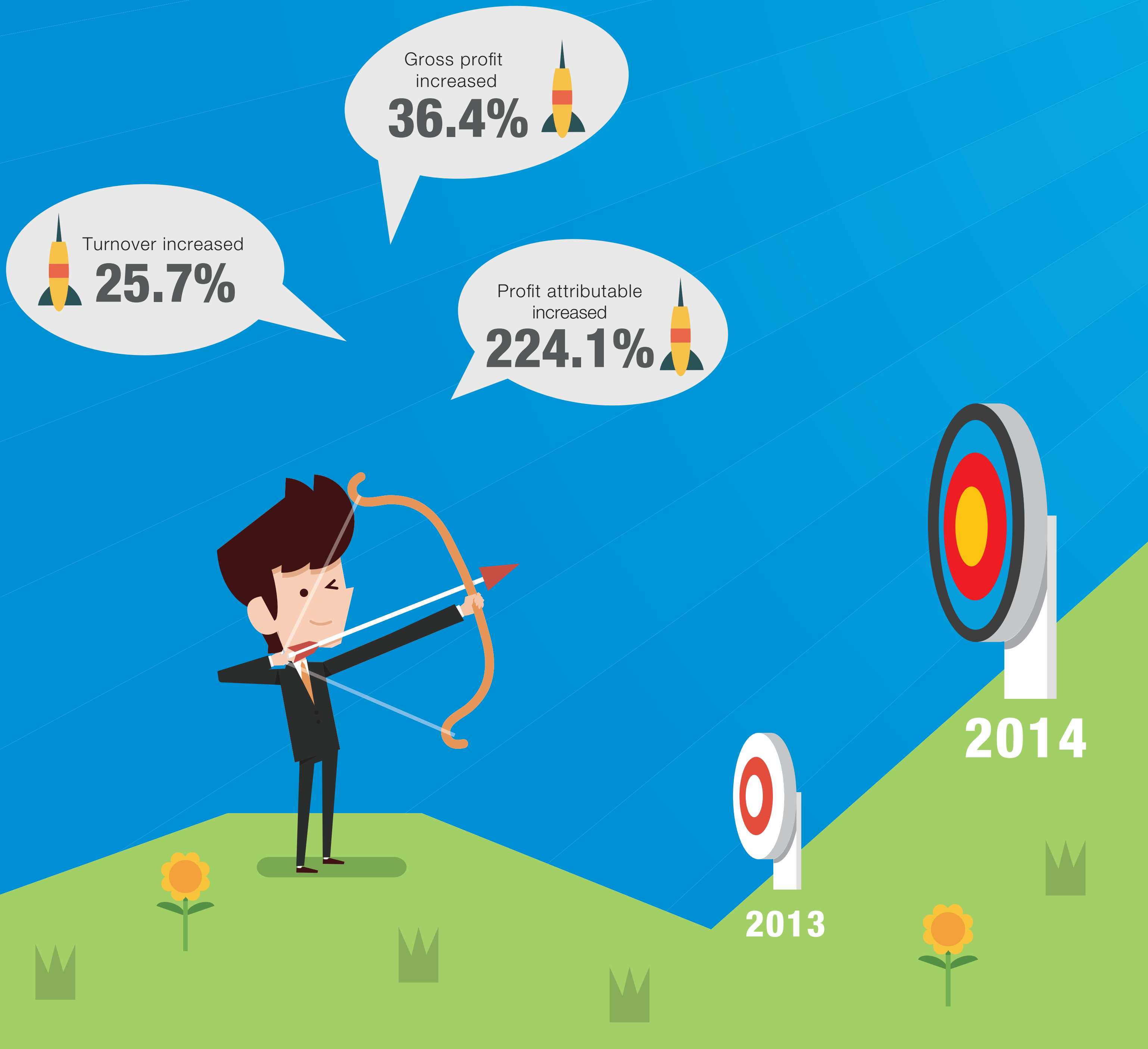
Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward looking statement. Forward-looking statements speak only at the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect the Group's results of operations are included in the Annual Report 2014.


O-Net


O-Net Shenzhen – passive optical networking products
O-Net U.S.A. – active optical networking products
O-Net representative – customers support
Avensys Inc. – ultra-reliable fiber-optic components and modueles
ArtIC Photonics, Inc. – proprietary photonic integrated circuit chips
VI Systems GmbH – proprietary vertical cavity surface emitting laser
O-Net Wavetouch – touch panel solutions
3SP Technologies S.A.S. – Indium Phosphide and Gallium Arsenide based chips

Results Highlights

1. Turnover increased by **25.7%** to HKD831.3 million
2. Gross profit increased by **36.4%** to HKD288.9 million
3. Gross profit margin increased to **34.8%** from 32.0%
4. Profit attributable to equity holders of the Company increased by **224.1%** to HKD43.3 million



Operational Performance

1. Launched 100G passive optical networking products during the year
2. Strengthened leadership within the electronic cigarette industry
3. Tapped into the consumer electronic industry through providing high-end coating services
4. Tapped into the huge potential market segment through launching the first active optical networking product

CONTENTS

Corporate Profile

O-Net Communications (Group) Limited is one of the leading high technology enterprises in China focused on optical networking, business related to electronic cigarettes, coating services and machine vision solutions. The Group's core business focuses on design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem used for high-speed telecommunications and data-communications.

The Group maintains global presences in mainland China, Canada, USA, Germany, France as well as other parts of the world and employs approximately 2,520 staff.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 29 April 2010 with stock code 877.

The objectives of the Group:

As a leading optical networking company, devoted to

(a) increase market share with its diversified product portfolio;

(b) expand R&D teams and increase investments to develop certain active optical networking products used in the next generation telecommunications and data-communications systems; and

(c) invest in overseas companies with high proprietary technologies in chip level for the active optical networking products.

As a diversified high technology company, devoted to

(a) focus on R&D and provide different solutions to meet diverse customer demands;

(b) strengthen our R&D capabilities through global investments;

(c) ongoing expand in our sales and marketing teams; and

(d) become leading enterprises in the various selected market segments.

As a listed company, devoted to

(a) create share price/value appreciation of the Company for long-term; and

(b) increase returns for shareholders.

Corporate Information

COMPANY NAME

O-Net Communications (Group) Limited

FINANCIAL YEAR END

31 December

PLACE OF INCORPORATION

Cayman Islands

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.o-netcom.com

BOARD OF DIRECTORS

Executive Director

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

Non-Executive Directors

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

Independent Non-Executive Directors

Mr. Deng Xinping
Mr. Ong Chor Wei
Mr. Zhao Wei

AUDIT COMMITTEE

Mr. Ong Chor Wei *(Chairman of the 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. Zhou Yu

AUTHORIZED REPRESENTATIVES

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

COMPANY SECRETARY

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

INVESTOR RELATIONS CONTACT

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

LEGAL ADVISORS TO THE COMPANY

As to Hong Kong law:
Deacons

As to Chinese law:
Global Law Office

As to Cayman Islands law:
Conyers Dill & Pearman

As to U.S. law:
Shearman & Sherling

AUDITOR

PricewaterhouseCoopers

PROPERTY VALUER

Jones Lang LaSalle 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
701,798,240 shares (as at this report approval date)

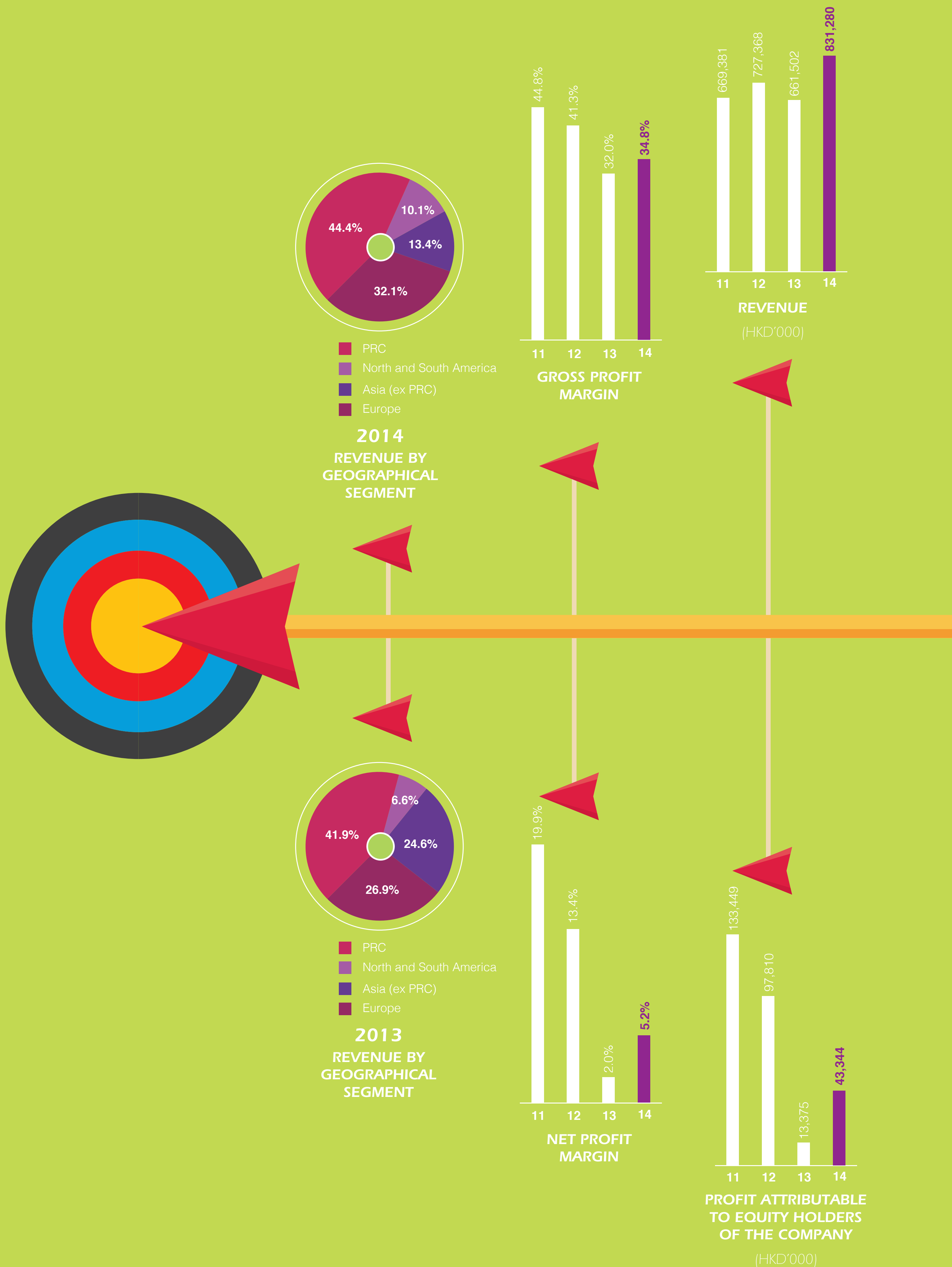
Board Lot Size
1,000 shares

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



44.4%
10.1%
13.4%
32.1%
PRC
North and South America
Asia (ex PRC)
Europe
2014
REVENUE BY GEOGRAPHICAL SEGMENT
44.8%
41.3%
32.0%
34.8%
11 12 13 14
GROSS PROFIT MARGIN
669,381
727,368
661,502
831,280
11 12 13 14
REVENUE
(HKD'000)
41.9%
6.6%
24.6%
26.9%
PRC
North and South America
Asia (ex PRC)
Europe
2013
REVENUE BY GEOGRAPHICAL SEGMENT
19.9%
13.4%
2.0%
5.2%
11 12 13 14
NET PROFIT MARGIN
133,449
97,810
13,375
43,344
11 12 13 14
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY
(HKD'000)

Financial Highlights

Chairman's Statement

STRONG RELIANCE ON PASSIVE OPTICAL NETWORKING PRODUCTS

- Passive Optical Networking Products

INCREASING CONTRIBUTION FROM CORE AND NEW BUSINESSES

- Passive Optical Networking Products
- Business relate to electronic cigarettes
- Coating services business

WELL DIVERSIFIED REVENUE STRUCTURE

- Passive Optical Networking Products
- Active Optical Networking Products
- Business relate to electronic cigarettes
- Coating services business
- Machine vision solutions

We have managed to achieve a double-digit growth during a successful year of 2014 and are confident that we can resume a strong growth momentum and improve our leading position in our optical networking business. With an initial success in our new coating services business and business related to electronic cigarettes, we believe that these new businesses should eventually improve our profitability and further drive our overall business expansion in the upcoming years.

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 2014 ("FY2014").

CORPORATE DEVELOPMENT

Even though the global economy continues to experience a slower-than-expected improvement, the global telecommunications and data-communication markets have gradually recovered throughout 2014. Ongoing challenges not only test our financial strength, but also our management and execution capabilities. As one of the major players in the optical networking industry within both the global telecommunications and data-communications markets, we have managed to achieve double-digit growth as we have successfully coped with a very competitive market through the dedicated efforts of our management team and employees.

We have built up our core competitiveness by persevering in innovation and diversifying into businesses with high growth potential. Innovation is of paramount importance for developing new products. In order to achieve long-term growth in our core business, we are strongly committed to strengthen our research and development ("R&D") capabilities to supply greater numbers of next-generation products in the global optical networking industry. Together with ongoing expansion of our internal R&D teams located in both China and the U.S.A., we have bolstered our R&D capabilities through overseas investments in a German company, VI Systems GmbH, to develop proprietary vertical cavity surface emitting laser ("VCSEL") and a Canadian company, ArtIC Photonics, Inc., to develop proprietary photonic integrated circuit chips. The chips that are developed by these two overseas companies are to be fully integrated into our next-generation active optical networking products. Through this vertical integration, we will be able to secure the supply of key components so as to offer competitive next-generation active products in the fast-emerging telecommunications and data-communications markets.

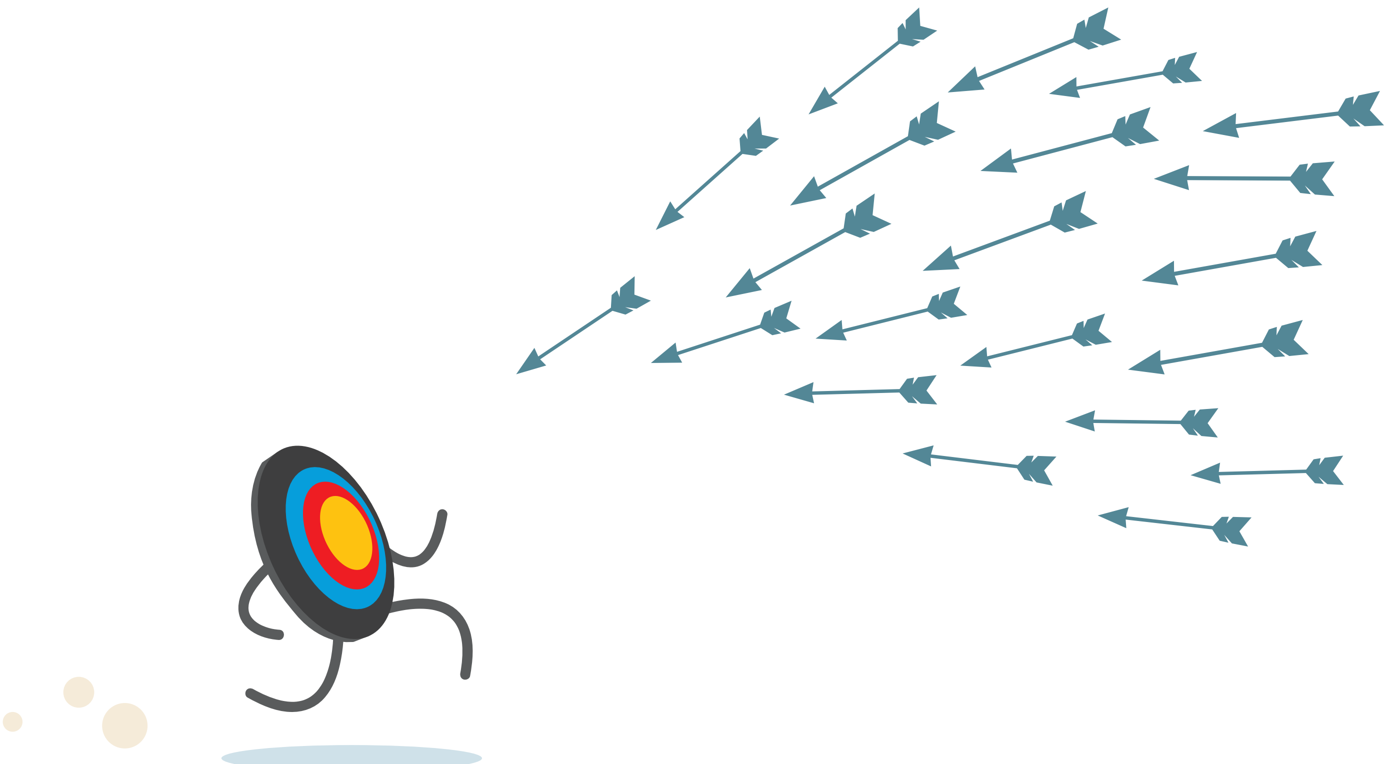
In addition to our efforts in the core business, we are also investing in team building within prospective new businesses with great potential to enhance our long-term profitability. During the year, we have become a leading supplier of the fast-growing electronic cigarettes industry by supplying heating coils and automated E-liquid Filling & Assembly Machines. We believe that growth in the electronic cigarettes industry will lead to greater profitability in our business related to electronic cigarettes. Meanwhile, we have successfully designed and launched a coating machine ("AR & AF coating machine") with a new coating processes executing anti-reflective ("AR") and anti-fingerprint ("AF") coating simultaneously, a breakthrough for any professional coating application. An AR coating is an optical coating applied to the cover glass or camera cover lens of smartphones and tablets to reduce reflection, eliminating glare and enabling the devices to be used efficiently under bright lighting and direct sunlight. An AF coating is a type of optical coating applied to reduce fingerprint marks. By applying our technologies of optical coating and its related processing into the AR & AF coating machine, we have successfully penetrated into the coating services business and generated income. During the year, we have invested in three AR & AF coating machines and planned to invest more in coating machines to cope with the rising demand of touch devices in order to improve our profitability in the upcoming year.

RESULTS HIGHLIGHTS

Through the dedicated effort and invaluable contributions of our management team and staffs, I am glad to report a successful FY2014 during which we recorded 25.7% year-on-year growth and achieved total revenue of HKD831.3 million for the year ended 31 December 2014. In addition, we recorded net profit of 3.2 times of the corresponding period of last year, and reached HKD43.3 million for the year ended 31 December 2014.

DIVIDEND

The Board does not recommend any final dividend for FY2014 at the upcoming Annual General Meeting of the Company.



PROSPECTS

Looking ahead, we continue to effectively allocate resources to improve our leading position in our core business. In addition to offering the next-generation active products in the fast-emerging telecommunications and data-communications markets, we provide management consultancy services to a French company, 3SP Technologies S.A.S. ("3SP"), a leading supplier of Indium Phosphide ("InP") and gallium arsenide ("GaAs") chips used in pump laser products. This initiative is an important step forward in not only moving our advanced production capabilities to the chip level through 3SP's state-of-art wafer fab and cutting-edge process technologies, but also providing a secure supply of 3SP's world-leading pump laser products to our amplifier products, which is one of our key strategic products in the global telecommunications and data-communications markets. In order to enhance our leading position in the global optical networking industry, we have fully acquired a Canadian company, Avensys Inc. ("Avensys"), a leading supplier of ultra-reliable fiber-optic components and modules including fiber Bragg grating, high-power fused components and modules, optical sensors and instrumentation and fiber laser in the optical networking industry and industrial markets. The acquisition of Avensys not only provides us an accretive profitability, but will also create powerful synergies with our core and new businesses in terms of products, technologies and vertical integration. The above strategic initiatives present a great opportunity to enhance our brand name by introducing our comprehensive product offerings and advanced technologies to our worldwide optical networking customer. With our ongoing expansion in the optical networking business, we are confident that we can capture the growth trend together with our new product offerings in the optical networking industry in the upcoming years and resume a strong growth momentum in our core business.

Meanwhile, with the initial success in the new businesses, we will continue to allocate adequate resources for diversification within various selected market segments. Since our business related to electronic cigarettes and new coating services business have proven a success and delivered revenue, we believe that our new businesses should eventually improve our profitability and further drive our overall business expansion in the upcoming years.

With the continued support from shareholders and conscientious dedication of the team we are confident, through continued innovation and diversification, that our business will achieve strong growth in 2015 and embark on a long term, sustainable expansion which shall 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 deliver a good performance for FY2014. 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, 31 March 2015

The Group has focused on the research, development, manufacture and sale of passive optical networking products which include subcomponents, components, modules and subsystems mainly used in broadband and optical networking systems. With its signature strategy 'Innovation', the Group has started R&D of certain active optical networking products used in the next generation telecommunications and data-communications systems by ongoing expansion of R&D teams in both China and the U.S.A. In executing its business strategy 'Diversify for Growth', the Group has identified certain new businesses, including business related to electronic cigarettes, coating services and machine vision solutions, with promising potential. Based on its core proprietary technologies and vertically integrated business model, the Group aims to become a leading diversified high-tech company.

INDUSTRY AND BUSINESS REVIEW

Optical Networking Business

The global optical components market recorded revenue of USD7,390 million for 2014, rose by 7% as compared to 2013, was principally driven by (i) higher data rates in supporting of the growth of core network bandwidth demand; (ii) increasing demand for data centers due to introduction of cloud services storage; and (iii) optical access network build-out particularly in China. Ovum expected the global optical components market will further develop at a compound annual growth rate of 10% to reach USD12.3 billion by 2019. Despite the global optical components market contracted 5.2% sequentially in the forth quarter of 2014 to USD1,813 million and only grew 7% in 2014 as compared to 2013, the Group has successfully increased its market share. The Group's optical networking components revenue for FY2014 achieved a solid growth at a rate of 19.5% over last year and reaching HKD781.4 million compared to HKD654.0 million during FY2013. The gross profit margin of its optical networking business increased from 31.9% for FY2013 to 35.1% for FY2014.

New Business

The Group's introduction of the new business has proven a success in FY2014. Currently, the Group has established stable business relationships with a number of electronic cigarettes makers and become a leading supplier of the electronic cigarettes industry by supplying heating coils to the major electronic cigarettes manufacturers in China and automated E-liquid Filling & Assembly Machines to several players in the electronic cigarettes industry. The Group's revenue generated from its business related to electronic cigarettes increased from HKD7.4 million for FY2013 to HKD31.4 million for FY2014 and its gross profit margin increased from 39.4% for FY2013 to 39.8% for FY2014.

In addition, leveraging the Group's optical coating and processing technology platform, it has successfully designed and launched an AR & AF coating machine and entered the coating services business. The AR & AF coating machine created a new coating combination by executing AR and AF coating processes simultaneously, a breakthrough for any professional coating application. AR coating is an optical coating applied to the cover glass or camera cover lens of touch devices to reduce reflection which eliminates glare enabling the devices to be used under bright lighting and direct sunlight, while an AF coating is a type of optical coating applied to reduce fingerprint marks. During the year, the Group has launched coating services in the market and generated income of HKD15.2 million during the fourth quarter of FY2014 from its coating services business.

FINANCIAL REVIEW

Revenue

Revenue for FY2014 totaled HKD831.3 million, representing an increase of HKD169.8 million, or 25.7%, compared to that of HKD661.5 million for FY2013. The increase in revenue for FY2014 was primarily due to (i) the increase in the revenue of optical networking business and business related to the electronic cigarettes industry; and (ii) the new revenue source generated from the coating business.

Optical Networking Business

The optical networking business recorded revenue of HKD781.4 million for FY2014, representing an increase of 19.5% as compared to that of HKD654.0 million for FY2013. The increase in revenue for FY2014 was primarily attributable to the increase in revenue from both overseas and domestic markets.

The revenue of optical networking business from the overseas market increased by 20.1% to HKD461.9 million for FY2014, representing 59.1% of its total optical networking revenue, which was attributable to the combined effect of (i) continuous increasing demand on telecommunication network upgrades from 40GbE to 100GbE; and (ii) gain further market share in the overseas market.

The revenue of optical networking business from the domestic market rose by 18.6% to HKD319.5 million for FY2014, representing 40.9% of its total optical networking revenue, which is attributable to the combined effect of (i) implementation of "Boardband China" strategy accelerated the development of 4G LTE network; and (ii) gain further market share in the domestic market.

Business Related To Electronic Cigarettes

Revenue from the business related to electronic cigarettes of HKD31.4 million was recorded for FY2014, rose by 326.6% as compared to that of HKD7.4 million for FY2013. The dramatic increase in revenue for FY2014 was primarily attributable to (i) the increase in demand of heating coils as the Group had established supply relationships with several major electronic cigarettes makers in China during FY2014; and (ii) the launch of newly developed automated E-liquid Filling & Assembly machines for the electronic cigarettes industry.

Coating Services Business

Sales of the coating services business were mainly contributed by the orders from OEM smartphone manufacturers and touch devices cover glass manufacturers in China. The Group had generated a new revenue source of HKD15.2 million from the coating services business as it had successfully designed and launched a coating machine with a new coating process to meet customer demands in FY2014.

Gross Profit and Gross Profit Margin

The Group's gross profit for FY2014 was HKD288.9 million, representing an increase of HKD77.1 million, or 36.4%, from the group's gross profit of HKD211.8 million for FY2013. The gross profit of the optical networking business increased to HKD274.3 million for FY2014 from HKD208.8 million for FY 2013 while the gross profit of business related to electronic cigarettes rose to HKD12.5 million for FY2014 from HKD2.9 million for FY 2013. The increase of gross profit was primarily due to increase in revenue of the overall business of the Group and higher gross profit margin in the optical networking business.

Gross profit as a percentage of total revenue, or gross profit margin, increased to 34.8% for FY2014 as compared with 32.0% for FY2013, which was primarily due to (i) the Group was putting considerably greater effort into cost control measures; (ii) the fixed overheads, such as utilities and depreciation of fixed assets, were shared by a higher production volume for FY2014 as compared to FY2013; and (iii) the improvement in the operating efficiency.

Other Gains

Other gains for FY2014 increased by 23.3% to HKD8.5 million from HKD6.9 million for FY2013, which was primarily due to the net effect of (i) the increase in government subsidies by HKD5.3 million, from HKD1.6 million for FY2013 to HKD6.9 million for FY2014; (ii) the decrease in other income by HKD1.7 million; and (iii) the decrease in investment income by HKD1.9 million, from HKD3.2 million recorded for FY2013 to HKD1.3 million for FY2014.

Selling and Marketing Costs

Selling and marketing costs of HKD36.4 million for FY2014 represents an increase of HKD6.1 million, or 20.0% as compared to HKD30.3 million for FY2013. The increase in selling and marketing costs for FY2014 was primarily attributable to the rise of salary costs, transportation costs, travelling expenses and utilities charges only partially offset by the decrease of sales commissions. However, the selling and marketing costs as a percentage of revenue declined to 4.4% for FY2014 as compared to 4.6% for FY2013. The decline was mainly attributable to the increase in revenue outweighing the higher overall selling and marketing costs.

Salary for FY2014 was HKD9.9 million which represents an increase of HKD3.3 million, or 49.3% as compared with HKD6.6 million for FY2013. The increase was primarily attributable to the new business in China and expansion of overseas optical networking business had led to an overall increase in headcount of sales and marketing teams so in order to further penetrate the business of existing customers and seek for new business opportunities.

Transportation costs for FY2014 were HKD6.2 million, an increase of HKD1.3 million, or 25.3% as compared with HKD4.9 million for FY2013. The increase rose along supported the rising sales revenue during the year under review.

Travelling expenses for FY2014 were HKD1.8 million which represents an increase of HKD0.8 million, or 75.3% as compared with HKD1.0 million for FY2013. The increase was primarily attributable to the higher frequency of business trip for the sales and marketing teams to perform more sales and marketing activities for optical networking business.

Utilities charges for FY2014 were HKD2.2 million which represents an increase of HKD0.6 million, or 36.8% as compared with HKD1.6 million for FY2013. The increase was attributable to the full year impact of utilities charges as the Group had relocated to a new factory in April 2013.

Sales commissions for FY2014 were HKD12.5 million. This represents a decrease of HKD1.2 million, or 8.9% from HKD13.7 million for FY2013. The decrease was mainly attributable to the decrease in commission rate.

Research and Development Expenses

R&D expenses for FY2014 were HKD106.0 million, which was HKD17.0 million, or 19.1% higher when compared to HKD89.0 million incurred for FY2013. The increase in R&D expenses was mainly due to the increase in salary cost, materials consumed, depreciation of fixed assets and other R&D related expenses. However, R&D expenses as a percentage of revenue decreased to 12.7% for FY2014 as compared to 13.5% for FY2013 was mainly due to the increase in revenue outweighing the higher overall R&D expenses.

For FY2014, the salary was HKD44.4 million, an increase of HKD5.8 million, or 14.9% as compared to HKD38.6 million for FY2013. The increase was primarily attributable to the combined effect of (i) the hiring of more R&D engineers for the R&D team located in China; and (ii) overall salary increment within the team.

Raw material consumed in the R&D projects amounted to HKD31.4 million for FY2014, an increase of HKD1.8 million, or 6.1% from HKD29.6 million for FY2013. Meanwhile, depreciation of fixed assets for FY2014 amounted to HKD7.9 million, an increase of HKD2.2 million, or 37.8% from the corresponding figure of HKD5.7 million for FY2013. The increase of raw materials and fixed assets used for R&D projects was primarily attributable to the addition of R&D projects for developing new products in the optical networking business and potential new business.

For the other R&D related expenses, the amounts were HKD8.1 million, an increase of HKD3.7 million compared with FY2013 was primarily due to an expansion of the R&D center located in the U.S.A.

Administrative Expenses

Administrative expenses for FY2014 were HKD107.2 million, or which was HKD9.1 million, 9.3% higher as compared to HKD98.1 million for FY2013. The increase in administrative expenses was primarily attributable to the increase in salary cost and depreciation of fixed assets partially offset by the decrease in the share option costs. However, administrative expenses as a percentage of revenue decreased to 12.9% for FY2014 as compared to 14.8% for FY2013 was mainly due to the increase in revenue outweighing the higher overall administrative expenses.

Salary for FY2014 was HKD61.5 million and which represents an increase of HKD12.7 million, or 26.2% as compared with HKD48.8 million for FY2013. The increase was primarily attributable to an overall increase in headcount for the new businesses, such as business related to electronic cigarettes, coating services business and machine vision solutions business, had led to an overall increase in headcounts.

The depreciation of fixed assets for FY 2014 was HKD8.3 million, an increase of HKD1.8 million, or 28.4% from HKD6.5 million for FY 2013. The increase was attributable to the full year impact of depreciation of factory as the Group had relocated to a new factory in April 2013.

The share option cost for FY2014 was HKD1.9 million, a decrease of HKD3.6 million, or 64.9% as compared with HKD5.5 million for FY2013. The decrease was primarily attributable to most of the share option costs related to the options granted to the administrative staff already being fullly amortized in previous years.

Finance Income

Net finance income for FY2014 amounted to HKD8.5 million, a decrease of HKD8.1 million from HKD16.6 million for FY2013. The decrease in net finance income was due to the decrease in foreign exchange gain which was driven by a lesser extent of the strengthening of the RMB as the Group held most of the cash in RMB rather than the functional currency of the Group.

Share of Result of an Associate

During 2014, the Group invested in an associate which engaged in the R&D of photonic integrated circuit chips. Share of the result of an associate of HKD1.6 million for FY2014 represents the Group's share of loss which was brought by the associate's operating expenses. No revenue was generated from the associate for FY2014.

Share of Result of a Joint Venture

Share of result of a joint venture ("JV") amounted to HKD3.4 million for FY2014, representing an increase of HKD0.6 million compared with HKD2.8 million for FY2013. The increase of the Group's share of loss of a JV which was primarily attributable to the full year impact of sharing the JV's operating expenses as the JV had set up in June 2013. No revenue were generated from the JV for both FY2013 and FY2014.

Profit Before Tax and Profit Before Tax Margin

Profit before tax of HKD51.4 million was recorded for FY2014 while HKD15.0 million was recorded for FY2013. The increase in profit before tax for FY2014 was primarily due to the increase in both revenue and gross profit from the Group's overall business as well as improvement in gross profit margin in the optical networking business.

Profit before tax as a percentage of total revenues, namely profit before tax margin, increased from 2.3% for FY2013 to 6.2% for FY2014. The increase in profit before tax margin was primarily due to an increase in gross profit margin as well as a decrease in selling expenses, R&D expenses and administrative expenses as a percentage of revenue 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 purposes.

Income tax expenses for FY2014 amounted to HKD8.0 million, representing an increase of HKD6.3 million, from the income tax expense of HKD1.7 million for FY2013. The increase in income tax expenses was primarily due to an increase in net profit before tax for FY2014.

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

Profit attributable to equity holders of HKD43.3 million was recorded for FY2014, while HKD13.4 million was recorded for FY2013. The increase in profit attributable to equity holders was primarily due to the increase in both revenue and gross profit from the Group's overall business as well as an improvement in gross profit margin in the optical networking business.

Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, increased from 2.0% for FY2013 to 5.2% for FY2014. The increase in net profit margin was primarily due to the increase in gross profit margin as well as a decrease in selling expenses, R&D expenses and administrative expenses as a percentage of revenue as described above.

NON-GAAP FINANCIAL PERFORMANCE

Non-GAAP Profit Analysis

Reconciliation of Non-GAAP Financial Measures

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

	Year end ed 31 December	
	2014	2013
	HKD'000	HKD'000
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	**288,949**	211,778
Adjustment Related to Cost of Sales		
(Reversal)/Provision for Excess and Obsolete Inventory	**(7,124)**	8,375
Non-GAAP Gross Profit	**281,825**	220,153
Adjustment to Measure Non-GAAP Net Profit		
Net Profit	**43,344**	13,375
Adjustment Related to Cost of Sales		
(Reversal)/Provision for Excess and Obsolete Inventory	**(7,124)**	8,375
Adjustments to Measure to Operating expenses		
Share Options Granted to Directors, Employees and Sales Distributors	**7,543**	10,721
Amortization of intangible assets	**759**	786
Adjustments to Other Gains – net		
Investment Income	**(1,269)**	(3,228)
Fair value Loss on Derivative Financial Instruments	**742**	124
Non-GAAP Net Profit	**43,995**	30,153
Non-GAAP EPS		
– Basic	**0.06**	0.04
– Diluted	**0.06**	0.04
Gross Profit Margin	**34.8%**	32.0%
Non-GAAP Gross Profit Margin	**33.9%**	33.3%
Net Profit Margin	**5.2%**	2.0%
Non-GAAP Net Profit Margin	**5.3%**	4.6%

Non-GAAP net profit for FY2014 was HKD44.0 million, or HKD0.06 per share, compared to non-GAAP net profit of HKD30.2 million, or HKD0.04 per share, reported for FY2013. Non-GAAP results for FY2014 exclude HKD7.1 million in reversal of provision for excess and obsolete inventory, HKD7.5 million in share options granted to directors, employees and sales distributors, HKD0.8 million in amortization of intangible assets and HKD0.7 million in fair value loss on derivative financial instruments and include HKD1.3 million in investment income. Non-GAAP results for FY2013 exclude HKD8.4 million in provision for excess and obsolete inventory, HKD10.7 million in share options granted to directors, employees and sales distributors, 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.

FUTURE PROSPECTS

Looking ahead to 2015, the Group's optical networking business will continue to be a key growth driver as the Group expects to launch a series of high-growth next-generation active products for telecommunications and data-communications markets. At the same time, the Group's new businesses have proven a success. Together with the other new business that will be delivered in 2015, these key factors will eventually drive the Group's overall business expansion in the coming years.

Optical Networking Business

Looking ahead, the optical networking business income stream not only will be generated from passive optical networking products, but will also be derived from a series of high-growth next-generation active products for 100GbE telecommunications and 40GbE data-communications applications. An advantage for the Group is that the telecommunications market continues to be driven by 100GbE demand while data centers continued to be a bright spot, so that 40GbE products should also achieve good growth in the data-communications market. In addition, launch of 4G LTE in China was a key factor leading the growth of the optical networking business in China. Driven by the optical network transmission upgrade to 100GbE, new cloud services storage opportunities, 4G LTE penetrations as well as the provision of management services for 3SP and the acquisition of Avensys by the Group, the Group's profitability, revenue, business scales and market share will reach higher levels. The Group is confident that its optical networking business not only will continue to grow and lead the optical networking industry, but also will return to a high-growth track so as to enhance its position as a prominent player in the global optical networking industry.

New Businesses

Not only has the Group's business related to electronic cigarettes successfully contributed revenue, but it has also become a leading supplier in the fast-growing electronic cigarettes industry. By leveraging its leading position in the electronic cigarettes industry, the Group will continue to focus on R&D and provide different solutions to meet diverse customer demands. The Group believes that the business related to electronic cigarettes will continue to deliver income in FY2015 and onwards.

Moreover, the Group has tapped the coating services business by applying our technologies of optical coating and its related processing into the AR&AP coating machine. The Group believes that the coating services business will gradually penetrate into the hyper-scale touch devices market, which would eventually improve the Group's overall profitability in 2015 and beyond.

In addition, the Group is expected to complete its development of machine vision solutions by 2015. The Group believes that launching of products from the machine vision solutions business will generate a new revenue source from the second half of 2015, which will also expand its scale of business and aid its growth for many years to come.

In conclusion, efforts in the past few years should very soon start to bring new energy to the Group's top and bottom lines. The Group's entry into the businesses related to electronic cigarettes and new coating services has proven to be a success. This achievement as well as a series of high-growth next-generation active optical networking products and products from the new machine vision solutions business set to be launched in 2015 has prepared the Group well to embark on another fast growth track, which would bring improved returns and enhanced value to the shareholders.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2014, the Company's issued share capital was approximately HKD7.0 million divided into 704,239,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,321.5 million (31 December 2013: HKD1,374.1 million). The Group had current assets of HKD780.8 million and current liabilities of HKD211.5 million and the current ratio was 3.7 times as at 31 December 2014 (31 December 2013: 4.6 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 2014 and 2013 since the Group did not have any borrowing.

As at 31 December 2014, the Group had cash and cash equivalents of approximately HKD69.5 million (31 December 2013: HKD281.8 million). The significant decrease was due to purchases of property, plant and equipment and payments for construction-in-progress, investment in an associate, repurchase of own shares, purchase of available-for-sale financial assets, payments for purchase of shares for restricted share award scheme and increase in trade and other receivables. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

During the year ended 31 December 2014, the Company repurchased and cancelled its own shares at a total consideration of HKD47.3 million together with its related expenses of HKD0.2 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 31 December 2014, HKD0.8 million bank deposits were pledged as guarantee for payables to contractors and suppliers for the construction of a new factory facility and for bills payables to raw material suppliers of the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

During the year ended 31 December 2014, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2014, the Group had contractual capital commitments of approximately HKD47.4 million (31 December 2013: HKD67.5 million). As at 31 December 2014, 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 2014, 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 HKD116.7 million (31 December 2013: HKD149.7 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

Given that the management is of 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 that is listed in Hong Kong and for the convenience of the shareholders. The Group has maintained a certain amount of cash denominated in Hong Kong dollars for paying dividends, if declared.

EMPLOYEE BENEFITS

As at 31 December 2014, the Group had a total of 2,520 employees (31 December 2013: 2,354). The Group's staff costs (including Directors' fees) amounted to HKD236.7 million (31 December 2013: HKD209.5 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 a 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.

In addition, the Group also participates in a pension plan for its employees in U.S.A.

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. During the year ended 31 December 2014, options in aggregate of 1,870,000 shares were granted to 19 eligible participants comprising an independent non-executive Director and employees of the Group (31 December 2013: options in aggregate of 19,550,000 shares were granted to 41 employees of the Group). The Directors believe that the compensation packages offered by the Group to staff member are competitive in comparison with market standards and practices.

The Board adopted a share award scheme ("Share Award Scheme") on 9 May 2014 as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group.

EXECUTIVE DIRECTOR

Mr. Na Qinglin

Mr. Na, aged 48, 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 the corporate governance committee (the "CG Committee") and a member of the 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 (HK) Limited and O-Net Communications Holdings Limited, all 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 each of Butterfly Technology (Shenzhen) Limited and Butterfly Technology (Hong Kong) Limited since 21 May 2008 and 30 May 2008 respectively. 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 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 67, 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 (HK) Limited and O-Net Communications (Shenzhen) Limited, all 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. From March 1998 to July 2014, Mr. Tam served as an executive director of Great Wall Technology Company Limited, a company which has been privatized and was delisted on the Stock Exchange of Hong Kong Limited (the "SEHK") in July 2014. 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.

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 47, 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.

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 54, 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.

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 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 45, 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 24 years of experience in finance and accounting. Mr. Ong is currently an executive director of Net Pacific Financial 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 executive director of Zibao Metals Recycling Holdings Plc, a company trading on AIM, a market operated by the London Stock Exchange. 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.

Mr. Ong holds a Master of Business Administration degree that was jointly awarded to him by the University of Wales and the University of Manchester. Mr. Ong also holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London. Mr. Ong is an associate member of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Zhao Wei

Mr. Zhao, aged 50, was appointed as an independent non-executive Director on 10 August 2012. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Zhao has over 22 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 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 53, is the Vice-President of Research and Development for the optical networking business where he is responsible for overseeing new product development activities. He joined the Group on 10 October 2011.

Dr. Hua has over 22 years of solid experience in research and development and product marketing in the optical networking industry. His 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 led the development and marketing of various fiber optic components and optical networking sub-system products.

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

Dr. Liu Qing Zhong

Dr. Liu, aged 56, is the Vice President of Research and Development for the active optical networking business and Head of Research and Development Centre located in U.S.A., where he is responsible for new product development for active optical networking products. He joined the Group on 30 July 2012.

Dr. Liu has over 28 years' solid experience in research and development as well as business development, which he attained from his work in optical networking 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 networking companies, he was responsible for product development, manufacturing and business development of high-speed optical products.

Mr. Tan Boon Thong

Mr. Tan, aged 45, is the Vice President of Sales for optical networking business, where he is in charge of domestic and overseas sales 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 46, is the Vice President of Global Marketing for the optical networking business, where he is responsible for advancing the product marketing, product strategy development and product management operations of the optical networking business. He joined the Group on 14 October 2013.

Dr. Gong has extensive experience in product development, product management, product marketing and sales engineering management in respect of the optical networking 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. Yu Aihua

Dr. Yu, aged 57, was appointed as the Vice President of Marketing for optical networking business on 3 March 2015, where he is responsible for overseeing the marketing of modules and subsystems. Dr. Yu Aihua also held a position of the Vice President of Research and Development – Modules and Subsystems for optical networking business of the Group since 16 April 2004.

Dr. Yu has over 33 years of solid experience in research and development in the optical networking industry. Prior to joining the Group, he was the chief research officer in the Department of Electronic Systems Engineering of Essex University. He has also gained international work experience having worked in various information technology companies including Lucent Technologies in the United Kingdom and Innvonance Networks in Canada.

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

Mr. Kung Sze Wai

Mr. Kung, aged 42, 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 18 years' experience in finance, accounting, auditing, taxation and company secretarial services as well as over 12 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 Yingzhong

Mr. Shi, aged 47, is the Vice President of Operations of the Group. 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 operational excellence for the Group.

Mr. Shi has over 18 years of experience in research and development, operation and project management in relation to the optical networking 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. Shen Fei

Dr. Shen, aged 35, 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 13 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. Yi Zhiming

Dr. Yi, aged 49, 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 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 coating products. He had over 18 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).

Mr. Fotis Konstantinidis

Mr. Konstantinidis, aged 56, was appointed as Chief Executive Officer of Avensys Inc. a wholly-owned subsidiary of the Company, on 12 January 2015. Mr. Konstantinidis joined the Company as Vice president of Marketing for industrial and optical networking products on 12 November 2014. Mr. Konstantinidis is responsible for overall management team and daily operations of Avensys Inc.

Mr. Konstantinidis has over 25 years of solid experience in engineering, marketing, and management with some of the industry's leading technology companies, including tenures at Norden Systems (Northrop Grumman), Intel, TranSwitch, Vitesse, Infineon and Crimson Microsystems. Mr. Konstantinidis also held several positions in sales and marketing department for 3SP between October 2007 and October 2014. Prior to joining 3SP, Mr. Konstantinidis held a position of senior director of marketing for JDSU from 2005 to 2007.

Mr. Konstantinidis obtained a master's degree in Electrical Engineering from University of Bridgeport in 1988.

Mr. Nigel Holehouse

Mr. Holehouse, aged 55, is the Vice President of Product Engineering of ITF Laboratories Inc., a wholly-owned subsidiary of Avensys Inc., where he is in charge of its research and development department. He joined ITF Laboratories Inc. on 1 September 2004.

Mr. Holehouse has over 25 years of solid experience in the telecommunication, sensing and fiber laser markets. Prior to joining ITF Labs, Mr. Holehouse held several positions of Co-Founder, Director of Operations and Vice-President of Packaging Engineering for Alfalight, Inc.

Mr. Holehouse obtained a higher national diploma of Applied Physics from Sheffield City Polytechnic in 1982.

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 ("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 2014, the Company was in compliance with all the code provisions set out in the CG Code except for the deviation as explained below.

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

Save as aforesaid, 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 2014.

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 2014.

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, 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 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. 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 Rules 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 19 to 24 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 2014 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 2014.

The individual training record of each Director received for the year ended 31 December 2014 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 2014, the Board held 8 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	**Number of attendance**
Mr. Na Qinglin	8/8
Mr. Tam Man Chi	8/8
Mr. Chen Zhujiang	8/8
Mr. Huang Bin	8/8
Mr. Ong Chor Wei	8/8
Mr. Deng Xinping	8/8
Mr. Zhao Wei	8/8

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 2014, 1 general meeting of the Company was held, being the 2014 annual general meeting of the Company held on 3 June 2014 ("2014 AGM").

Name of Director	**Number of attendance**
Mr. Na Qinglin	1/1
Mr. Tam Man Chi	1/1
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. All Directors including the chairmen of the Audit Committee, the Nomination Committee, the Remuneration Committee and the CG Committee attended the 2014 AGM 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 for 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 for 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 discusses with management the internal control system to ensure an effective internal control system is in place.

The Audit Committee is also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, 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 2014, 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 2014, 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; and reviewed the system of internal control of the Group.

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 for the Remuneration Committee is currently made available on the websites of the SEHK and the Company.

Terms of reference for 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 2014, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management.

Name of Director	**Number of attendance**
Mr. Deng Xinping	1/1
Mr. Tam Man Chi	1/1
Mr. Na Qinglin	1/1
Mr. Ong Chor Wei	1/1
Mr. Zhao Wei	1/1

Apart from the meeting held for the above, the Remuneration Committee also by way of written resolutions made recommendation to the Board on the review of remuneration of executive Directors and senior management, and the grant of share options to Director.

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 are set out in note 27 to the consolidated financial statements.

Senior Management's Remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2014 falls within the following bands:

	Number of individuals
Nil to HKD1,000,000	1
HKD1,000,001 to HKD1,500,000	2
HKD1,500,001 to HKD2,000,000	5
HKD2,000,001 to HKD2,500,000	1
HKD2,500,001 to HKD3,000,000	–
HKD3,000,001 to HKD3,500,000	1

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 further revised on 27 August 2013. The terms of reference for the Nomination Committee is currently made available on the websites of the SEHK and the Company.

Terms of reference for 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 ("Board Diversity Policy").

The Board Diversity Policy sets out the approach to achieve diversity on the Board. The Company recognizes that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board.

The Board delegated certain duties under the Board Diversity Policy to the Nomination Committee. The Nomination Committee will discuss and review the measurable objectives for implementing the Policy from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained.

The Nomination Committee will review the Policy, as appropriate, to ensure its continued effectiveness from time to time.

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 2014, the Nomination Committee held 1 meeting. The Nomination Committee reviewed the structure, size and diversity of the Board, assessed the independence of the independent non-executive Directors and considered and made recommendation on 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 for 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. Zhou Yu

During the year ended 31 December 2014, the CG Committee held 1 meeting. The CG Committee reviewed the Company's policies and practices on corporate governance; reviewed the training and continuous professional development of Directors and senior management; and reviewed the Company's compliance with the CG Code for the year ended 31 December 2013.

Name of Director/Member	Number of attendance
Mr. Na Qinglin	1/1
Mr. Kung Sze Wai	1/1
Mr. Zhou 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 re-appointment of PricewaterhouseCoopers as the Company's external auditor.

Auditors' Remuneration

The Company paid/payable a total remuneration of HKD2,584,000 and HKD133,400 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 2014.

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 shareholders 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 2015 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 2014, 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 2014, 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.

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 2014.

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 2014 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 51 to 119.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 28 May 2015 ("2015 AGM"), the register of members of the Company will be closed from Wednesday, 27 May 2015 to Thursday, 28 May 2015, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2015 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 Tuesday, 26 May 2015.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2014 are set out in note 19 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 2014, the Company repurchased 21,893,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.68 to HKD2.50 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
January 2014	288,000	1.79	1.74	507,870
March 2014	8,338,000	2.50	2.10	19,462,720
April 2014	7,757,000	2.40	2.14	17,525,740
December 2014	5,510,000	1.89	1.68	9,841,920
	21,893,000			47,338,250

Save as disclosed above and other than those shares purchased by the trustee for the Share Award Scheme, 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 2014, the Company's reserves available for distribution to the shareholders amounted to approximately HKD808.9 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. Tam Man Chi, Mr. Ong Chor Wei and Mr. Deng Xinping shall retire from office as Directors by rotation at the 2015 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. 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 36 to the consolidated financial statements.

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 or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 January 2014	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2014
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
Mr. Zhao Wei	9 April 2014	28 March 2015 to 8 April 2020 (Note 14)	2.400	-	500,000	–	–	–	500,000
Sub-total				1,000,000	500,000	–	–	–	1,500,000
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	11,601,000	–	(1,546,000)	–	(920,000)	9,135,000
		2 June 2012 to 8 April 2020 (Note 3)		1,810,000	–	(33,000)	–	(260,000)	1,517,000
		2 June 2013 to 8 April 2020 (Note 4)		3,310,000	–	–	–	(197,000)	3,113,000
		2 June 2012 to 8 April 2020 (Note 5)		9,743,000	–	–	–	(1,427,000)	8,316,000
	9 October 2012	9 October 2013 to 8 April 2020 (Note 6)	1.810	2,000,000	–	–	–	–	2,000,000

Name or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 January 2014	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31 December 2014
	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	–	–	–	–	2,350,0000
	11 September 2013	11 September 2014 to 8 April 2020 (Note 9)	1.708	2,000,000	–	–	–	–	2,000,000
	25 September 2013	13 August 2014 to 8 April 2020 (Note 10)	1.652	350,000	–	–	–	–	350,000
	16 October 2013	14 October 2014 to 8 April 2020 (Note 11)	1.628	4,000,000	–	–	–	–	4,000,000
	8 November 2013	8 November 2014 to 8 April 2020 (Note 12)	1.484	10,300,000	–	–	–	(1,480,000)	8,820,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 13)	2.40	–	1,370,000	–	–	(480,000)	890,000
Total				52,664,000	1,870,000	(1,579,000)	–	(4,764,000)	48,191,000

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 will commence on 11 September 2014, equally over a period of 5 years.

10. The vesting period will commence on 13 August 2014, equally over a period of 5 years.

11. The vesting period will commence on 14 October 2014, equally over a period of 4 years.

12. The vesting period will commence on 8 November 2014, equally over a period of 5 years.

13. The vesting period commences on 28 March 2015, equally over a period of 5 years.

A total of 52,664,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2014. On 9 April 2014, a total of 1,870,000 share options under the Post-IPO Share Option Scheme were granted to an independent non-executive Director and 18 employees. The closing price per Share immediately before 9 April 2014 (being the date on which share options were granted) was HKD2.40. On 2 May 2014, 1,579,000 share options were exercised into 1,579,000 Shares. 4,764,000 share options were lapsed during the reporting period. Save as aforesaid, no further options were granted, cancelled and lapsed during the year ended 31 December 2014.

RESTRICTED SHARE AWARD SCHEME

On 9 May 2014, the Board adopted the Award Scheme as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Share Option Schemes" above and in note 36 to the consolidated financial statements, at no time during the year ended 31 December 2014 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 shares in, or debt securities, including debentures, 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 2015 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 2014.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2014, 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 (Chapter 571, Laws of Hong Kong) ("SFO")) which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, 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 controlled corporations	Long position	243,805,383 (Note 1)	34.62
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.33
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
Mr. Zhao 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) 238,573,383 shares of the Company held by O-Net Holdings (BVI) Limited, a company owned as to approximately 51.97% 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 as to 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 243,805,383 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 2014, 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	32.32
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	227,636,237 (Note 1)	32.32
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	227,636,237 (Note 1)	32.32
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	238,573,383	33.88
Mandarin IT Fund I	Interest of a controlled corporation	Long position	238,573,383 (Notes 2 & 3)	33.88
HC Capital Limited	Interest of a controlled corporation	Long position	238,573,383 (Notes 2 & 3)	33.88
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	238,573,383 (Notes 2 & 3)	33.88
Mr. Yeh Meou-Tsen, Geoffery	Interest of a controlled corporation	Long position	238,573,383 (Notes 2 & 3)	33.88
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	238,573,383 (Notes 2 & 4)	33.88

Name	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	238,573,383 (Notes 2 & 4)	33.88
Mr. Na Qinglin	Interest of controlled corporations	Long position	243,805,383 (Notes 2, 4 & 5)	34.62

Notes:

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

2. These 238,573,383 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 51.97% 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 238,573,383 shares held by O-Net Holdings (BVI) Limited under the SFO.

4. Mandarin IT Fund I is managed by its investment manager, Mandarin VP (BVI) Limited, which is a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned as to approximately 75% by Mr. Na Qinglin, the Co-Chairman, the Chief Executive Officer and an executive Director of the Company; therefore, each of Mandarin VP (BVI) Limited, Mandarin Venture Partners Limited and Mr. Na Qinglin is deemed to be interested in 238,573,383 shares held by O-Net Holdings (BVI) Limited under the SFO.

5. Mr. Na Qinglin is deemed to be interested 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 throughout the year ended 31 December 2014.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchase from the five largest suppliers accounted for approximately 35.1% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 11.1% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 48.3% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 22.0% 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 35 to the consolidated financial statements also constituted connected transactions or continuing connected transaction under Chapter 14A of the Listing Rules which are required to be disclosed in the report.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2014, the Group has the following continuing connected transactions that are subject to the annual review requirements under Chapter 14A of the Listing Rules:

(1) 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 (the "Tenancy Agreement") with 紅蝶科技(深圳)有限公司 (Butterfly Technology (Shenzhen) Limited) as tenant ("Butterfly"), a company incorporated in the PRC with limited liability which is owned as to 80% by Mr. Na Qinglin ("Mr. Na"), the Co-Chairman, the Chief Executive Officer and an executive Director of the Company, for the leasing to Butterfly 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.

As Butterfly is owned as to 80% by Mr. Na 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 Butterfly under the Tenancy Agreement for the financial year ended 31 December 2014 is RMB3,126,000.

For the year ended 31 December 2014, the aggregate amount of rentals and reimbursements received/receivable from Butterfly amounted to approximately HKD795,000.

(2) On 21 May 2014, O-Net Shenzhen entered into a supply agreement ("Supply Agreement") with Butterfly for the supply on subcomponents, components, materials, article or goods, mainly for lens and surface mount technology (the "Relevant Products") to Butterfly by O-Net Shenzhen for a term of 3 years with retrospective effect from 1 January 2014 and ending on 31 December 2016.

The annual cap for the supply of the Relevant Products to Butterfly by O-Net Shenzhen under the Supply Agreement for the financial year ended 31 December 2014 is RMB8,000,000.

For the year ended 31 December 2014, the aggregate amount received/receivable from Butterfly amounted to approximately HKD2,731,000.

The independent non-executive Directors of the Company have reviewed the above non-exempt continuing connected transactions and confirmed that the transactions have 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 transactions and provided a letter to the Company confirming that in respect of the above continuing connected transactions:

(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 2014.

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 2014 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 25 to 36 of this annual report.

AUDITORS

A resolution will be submitted to the 2015 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, 31 March 2015

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 51 to 119, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, 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, 31 March 2015

Consolidated Balance Sheet

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

	Note(s)	As at 31 December 2014 HKD'000	2013 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**28,353**	29,119
Property, plant and equipment	7	**638,291**	570,894
Intangible assets	9	**60**	155
Investments accounted for using the equity method	14	**40,211**	21,099
Deferred income tax assets	24	**5,936**	5,836
Available-for-sale financial assets	11	**11,031**	3,440
Derivative financial instruments	12	**2,978**	2,451
Other receivables	16	**29,640**	–
Other non-current assets	8	**9,874**	10,068
		766,374	643,062
Current assets			
Inventories	15	**197,226**	163,296
Trade and other receivables	16	**404,376**	317,958
Other current assets	17	**7,498**	1,776
Pledged bank deposits	18	**761**	19,539
Term deposits with initial term of over three months	18	**101,411**	155,662
Cash and cash equivalents	18	**69,514**	281,828
		780,786	940,059
Total assets		**1,547,160**	1,583,121
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**7,042**	7,239
Share premium	19	**804,319**	847,424
Treasury shares	19	**(57,859)**	–
Other reserves	20	**111,972**	106,520
Retained earnings	21	**456,006**	412,875
Total equity		**1,321,480**	1,374,058

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

	Note(s)	As at 31 December 2014 HKD'000	 2013 HKD'000
LIABILITIES			
Non-current liabilities			
Deferred government grants	22	**14,176**	6,118
Current liabilities			
Trade and other payables	23	**201,822**	200,863
Current income tax liabilities		**9,682**	2,082
		211,504	202,945
Total liabilities		**225,680**	209,063
Total equity and liabilities		**1,547,160**	1,583,121
Net current assets		**569,282**	737,114
Total assets less current liabilities		**1,335,656**	1,380,176

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 119 were approved by the Board of Directors on 31 March 2015 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 2014 HKD'000	 2013 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries	13	**514,632**	507,195
Current assets			
Trade and other receivables	16	**328,154**	316,768
Cash and cash equivalents	18	**11,586**	126,768
		339,740	443,536
Total assets		**854,372**	950,731
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**7,042**	7,239
Share premium	19	**804,319**	847,424
Treasury shares	19	**(57,859)**	–
Other reserves	20	**82,960**	75,119
Retained earnings	21	**4,615**	8,969
Total equity		**841,077**	938,751
LIABILITIES			
Current liabilities			
Trade and other payables	23	**13,295**	11,980
Total liabilities		**13,295**	11,980
Total equity and liabilities		**854,372**	950,731
Net current assets		**326,445**	431,556
Total assets less current liabilities		**841,077**	938,751

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 119 were approved by the Board of Directors on 31 March 2015 and were signed on its behalf.

Na Qinglin
Director

Tam Man Chi
Director

Consolidated Income Statement

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

	Note(s)	Year ended 31 December 2014 HKD'000	2013 HKD'000
Revenue	5	**831,280**	661,502
Cost of sales	26	**(542,331)**	(449,724)
Gross profit		**288,949**	211,778
Other gains – net	25	**8,506**	6,896
Selling and marketing costs	26	**(36,386)**	(30,319)
Research and development expenses	26	**(105,952)**	(88,979)
Administrative expenses	26	**(107,206)**	(98,129)
Operating profit		**47,911**	1,247
Finance income	28	**8,511**	16,614
Share of losses of investments accounted for using the equity method	14	**(5,058)**	(2,822)
Profit before income tax		**51,364**	15,039
Income tax expenses	29	**(8,020)**	(1,664)
Profit for the year		**43,344**	13,375
Profit attributable to:			
Equity holders of the Company		**43,344**	13,375
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	32	**0.06**	0.02
– Diluted	32	**0.06**	0.02

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2014 HKD	2013 HKD
Dividend	31	**–**	–

Consolidated Statement of Comprehensive Income

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

	Year ended 31 December	
	2014	2013
	HKD'000	HKD'000
Profit for the year	**43,344**	13,375
Other comprehensive income		
Items that may be reclassified to profit or loss		
Share of other comprehensive loss of investment in a joint venture	**(10)**	(23)
Currency translation differences	**(2,294)**	30,233
Other comprehensive income for the year	**(2,304)**	30,210
Total comprehensive income for the year	**41,040**	43,585
Total comprehensive income attributable to:		
Equity holders of the Company	**41,040**	43,585

The notes on pages 58 to 119 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 19) HKD'000	Share premium (Note 19) HKD'000	Treasury shares (Note 19) HKD'000	Other reserves (Note 20) HKD'000	Retained earnings (Note 21) HKD'000	Total equity HKD'000
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 a joint venture	–	–	–	(23)	–	(23)
Total comprehensive income	–	–	–	30,210	13,375	43,585
Share option scheme – value of services (Note 26)	–	–	–	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
Balance at 1 January 2014	**7,239**	**847,424**	**–**	**106,520**	**412,875**	**1,374,058**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**43,344**	**43,344**
Other comprehensive income						
Currency translation differences	**–**	**–**	**–**	**(2,294)**	**–**	**(2,294)**
Share of other comprehensive income of investment in a joint venture	**–**	**–**	**–**	**(10)**	**–**	**(10)**
Total comprehensive income	**–**	**–**	**–**	**(2,304)**	**43,344**	**41,040**
Share option scheme – value of services (Note 26)	**–**	**–**	**–**	**7,543**	**–**	**7,543**
Share award schemes – shares purchased for restricted share award schemes (Note 19)	**–**	**–**	**(56,634)**	**–**	**–**	**(56,634)**
Repurchase and cancellation of shares	**(213)**	**(46,105)**	**(1,225)**	**213**	**(213)**	**(47,543)**
Exercise of share options	**16**	**3,000**	**–**	**–**	**–**	**3,016**
Balance at 31 December 2014	**7,042**	**804,319**	**(57,859)**	**111,972**	**456,006**	**1,321,480**

The notes on pages 58 to 119 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	2014 HKD'000	2013 HKD'000
		Year ended 31 December	
Cash flows from operating activities			
Cash (used in)/generated from operating activities	33	**(5,315)**	40,869
Income tax paid		**(521)**	(14,392)
Net cash from operating activities		**(5,836)**	26,477
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(135,552)**	(147,471)
Proceeds from government grant related to property, plant and equipment	22	**10,788**	6,227
Capital expenditure for capitalised development costs		**(9,197)**	–
Interest received		**6,298**	4,274
Proceeds from disposal of property, plant and equipment		**–**	4,140
Decrease/(Increase) of term deposits with initial term of over three months		**54,251**	(80,432)
Investment in an associate	14	**(23,400)**	(780)
Investment in a joint venture		**–**	(23,944)
Purchase of available-for-sale financial assets	11	**(7,591)**	(3,440)
Net cash used in investing activities		**(104,403)**	(241,426)
Cash flows from financing activities			
Dividends paid to shareholders		**–**	(22,666)
Repurchase of own shares		**(47,543)**	(46,253)
Proceeds from exercise of share options		**3,016**	–
Payments for purchase of shares for restricted share award schemes		**(56,634)**	–
Net cash used in financing activities		**(101,161)**	(68,919)
Net decrease in cash and cash equivalents		**(211,400)**	(283,868)
Cash and cash equivalents at the beginning of the year		**281,828**	558,937
Exchange difference		**(914)**	6,759
Cash and cash equivalents at the end of the year		**69,514**	281,828

The notes on pages 58 to 119 are an integral part of these 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 31 March 2015.

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 Hong Kong Financial Reporting Standards (the "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 consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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.

2.1.1 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 2014:

HKAS 32 (Amendment)	Financial instruments: Presentation on asset and liability offsetting
HKFRS 10,12 and HKAS 27 (Amendment)	Investment entities
HKAS 36 (Amendment)	Impairment of assets: recoverable amount disclosures for non-financial assets
HK(IFRIC) 21	Levies

The adoption of the above amended standards and interpretation did not have significant impact on the results or financial position of the Group for the current year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

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

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

The following new and amended standards that are relevant to the Group have been issued but are not effective for the accounting period beginning on 1 January 2014 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 19 (Amendment)	Defined benefit plans: employee contributions	1 July 2014
Annual improvements 2012	Changes from the 2010-2012 cycle of the annual improvements project	1 July 2014
Annual improvements 2013	Changes from the 2011-2013 cycle of the annual improvements project	1 July 2014
HKFRS 14 (Amendment)	Regulatory Deferral Accounts	1 July 2014
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
HKFRS10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
Annual improvements 2014	Changes from the 2012-2014 cycle of the annual improvements project	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment entities: applying the consolidation exception	1 January 2016
HKAS 1 (Amendment)	The disclosure initiative	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

Management is currently assessing the impact of the above new and amended standards to the Group's financial position and performance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of Preparation *(Continued)*

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

(c) The new Companies Ordinance (Cap. 622) (the"new CO")

The requirements of Part 9, "Accounts and Audit", of the new CO come into operation from the Group's first financial year commencing after 3 March 2014 in accordance with Section 358 of the new CO. The Group is in the process of making an assessment of the expected impact on the consolidated financial statements on the initial application of Part 9 of the new CO. So far management has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements of the Group.

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 acquirer'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 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 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.

2.5 Segment Reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign Currency Translation

(a) Functional and Presentation Currency

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 '.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 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.

2.8 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.

2.9 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)*

2.10 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.

2.11 Financial Assets

2.11.1 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 2.15 and 2.16).

(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)*

2.11 Financial Assets *(Continued)*

2.11.2 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 and 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.

2.12 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of Financial Assets *(Continued)*

(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, if any such evidence exists 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 recognised in profit or loss-is removed from equity and recognised in profit or loss. 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 recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, 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 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 recognised in profit or loss-is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13 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 instruments are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instrument are recognized immediately in profit or loss.

2.14 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.

2.15 Trade and Other Receivables

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

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. When a trade receivable is uncollectible it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 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.

2.17 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 distributed.

2.18 Treasury Shares

The Company set up a share scheme trust ("Share Scheme Trust") for the purpose of purchasing the Company's shares from the market and award to employee in the future ("Share award schemes"). The consideration paid by the Share Scheme Trust for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Treasury Shares" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Treasury Shares", with a corresponding adjustment to "Share premium".

2.19 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.

2.20 Current and Deferred Income Tax

The tax expenses for the period comprise current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and Deferred Income Tax *(Continued)*

(b) Deferred income tax

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

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

2.21 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)*

2.22 Share-based Payments

(a) Equity-settled share-based payment transactions

The Group operates two types of share-based compensation plans, including share option schemes and share award schemes (note 2.18). The share option schemes comprise 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 share-based compensation plans, the entities within the Group receive services from employees as consideration for equity instruments (including share options and awarded shares) of the Company or a shareholder of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments of the Group is recognised as an expense over the vesting period. The total amount to be expensed is determined by reference to the fair value of the equity instruments 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Share-based Payments *(Continued)*

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiaries within the Group is treated as a deemed capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to the Company's investment in the subsidiaries, with a corresponding credit to equity in the Company's entity-level financial statements.

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

2.23 Provisions

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

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

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

2.24 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 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;

(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.

2.26 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.

2.27 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.

2.28 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 2014, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, profit before tax for the year would have been HKD4,401,000 (2013:HKD982,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of 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 2014(2013: none). 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 2014 (2013: none).

(iii) Price risk

As at 31 December 2014, the Group did not hold any equity securities that were traded publicly. Accordingly, it was not exposed to commodity price risk (2013: none) as at 31 December 2014.

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 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.

For trade and other receivables, the Group has policies in place to ensure that sale of goods are made to customers with an appropriate credit history. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

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.

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** HKD'000
At 31 December 2014	
Trade and other payables	**178,138**
At 31 December 2013	
Trade and other payables	172,305

Company	**Less than 1 year** HKD'000
At 31 December 2014	
Trade and other payables	**13,295**
At 31 December 2013	
Trade and other payables	11,980

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 have any debt as at 31 December 2014(2013: none).

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 2014.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
Assets				
Financial assets at fair value through profit or loss – Derivative financial instruments – Call option for equity investment in a joint venture (Note 12)	–	–	**2,978**	**2,978**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair Value Estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013.

	Level 1 HKD'000	Level 2 HKD'000	Level 3 HKD'000	Total HKD'000
Assets				
Financial assets at fair value through profit or loss – Derivative financial instruments – Call option for equity investment in a joint venture (Note 12)	–	–	2,451	2,451

The following table presents the changes in level 3 instruments for the year ended 31 December 2014 and 2013.

	Financial assets at fair value through profit or loss – Derivative financial instruments – call option	
	2014 HKD'000	2013 HKD'000
At 1 January	**2,451**	–
Option embedded in investment in a joint venture	**–**	2,575
Call options embedded in investment in an associate	**1,269**	–
Losses recognized in profit or loss	**(742)**	(124)
At 31 December	**2,978**	2,451
Total losses for the year included in profit or loss for assets held at the end of the year, under "Other gains – net"	**(742)**	(124)
Changes in unrealized losses for the year included in profit or loss at the end of the year	**(742)**	(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:

(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.

In accordance with the enterprise income tax laws in the PRC, a 10% withholding tax will be levied on the dividend declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. At 31 December 2014, deferred income tax liabilities of approximately HKD49,289,000 (2013: HKD41,565,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD493 million (2013: HKD416 million) of the PRC subsidiary. The directors of the PRC subsidiary had resolved not to distribute these earnings in the foreseeable future.

(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.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(d) Write-downs of Inventories to Net Realizable Value

The Group writes down inventories to net realizable value based on an assessment of the reliability 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.

(e) Recognition of Share-based Compensation Expenses

As explained in more detail in Note 36, the Group had granted share options to its employees under the Post-IPO Share Option Scheme during the year ended 31 December 2014. 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 as mentioned in Note 36 during the year ended 31 December 2014 was assessed to be approximately HKD2,356,000.

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 2014, 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 2014 would be increased by approximately HKD765,000 (2013: 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 HKD43,344,000 and HKD52,976,000, 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 of the reported revenues from sales of goods were made to external customers for the year ended 31 December 2014 (2013: same).

(a) Revenue from external customers in the People's Republic of China ("PRC"), Europe, North America and other Asia countries excluding the PRC, determined by the destinations of shipment, is as follows:

	2014 **HKD'000**	2013 HKD'000
The PRC	**369,001**	276,803
Europe	**266,657**	178,223
North America	**84,227**	43,876
Other Asian countries excluding the PRC	**111,395**	162,600
	831,280	661,502

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2014 and 2013 are as follows:

	2014 **HKD'000**	2013 HKD'000
The PRC	**672,133**	605,991
Hong Kong	**40,408**	22,803
USA	**4,248**	2,541
	716,789	631,335

(c) During the year ended 31 December 2014, revenue of approximately HKD337,316,000 (2013: HKD309,108,000) was derived from three customers, which comprised 41% (2013: 47%) of the total revenue of the Group.

Revenue of approximately HKD182,538,000 (2013: HKD162,322,000 and HKD96,398,000) were derived from one (2013: two) external customer, which are more than 10% of the Group's total revenue.

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.

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 analysed as follows:

	2014 **HKD'000**	2013 HKD'000
Outside of Hong Kong		
– Lease of 50 years	**28,353**	29,119

	Land use right HKD'000
Year ended 31 December 2013	
Opening net book amount	28,885
Amortization charge	(660)
Translation difference	894
Closing net book amount	29,119
Year ended 31 December 2014	
Opening net book amount	**29,119**
Amortization charge	**(665)**
Translation difference	**(101)**
Closing net book amount	**28,353**

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 2014 was 42 years.

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Building HKD'000	Machinery HKD'000	Motor vehicles HKD'000	Furniture, fitting & equipment HKD'000	Construction in progress HKD'000	Total HKD'000
At 1 January 2013						
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
Year ended 31 December 2014						
Opening net book amount	**383,356**	**21,322**	**1,108**	**105,314**	**59,794**	**570,894**
Transfer	**–**	**3,149**	**–**	**–**	**(3,149)**	**–**
Additions	**–**	**16,312**	**153**	**14,197**	**86,022**	**116,684**
Disposals	**–**	**–**	**–**	**(17)**	**–**	**(17)**
Depreciation	**(8,531)**	**(4,686)**	**(359)**	**(34,102)**	**–**	**(47,678)**
Translation difference	**(1,319)**	**(91)**	**(4)**	**22**	**(200)**	**(1,592)**
Closing net book amount	**373,506**	**36,006**	**898**	**85,414**	**142,467**	**638,291**
At 31 December 2014						
Cost	**387,785**	**67,578**	**1,951**	**270,248**	**142,467**	**870,029**
Accumulated depreciation	**(14,279)**	**(31,572)**	**(1,053)**	**(184,834)**	**–**	**(231,738)**
Net book amount	**373,506**	**36,006**	**898**	**85,414**	**142,467**	**638,291**

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

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

	2014 **HKD'000**	2013 HKD'000
Cost of sales	**30,827**	26,283
Selling and marketing costs	**181**	111
Research and development expenses	**8,356**	5,712
Administrative expenses	**8,314**	6,475
	47,678	38,581

(b) For the year ended 31 December 2014, lease rentals amounting to HKD2,966,000 (2013: HKD5,313,000) 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 2014 mainly comprised costs incurred for a new production plant under construction, which is located in Pingshan, Shenzhen, the PRC.

(d) As at 31 December 2014, The Group is in the process of applying the building ownership certificate of certain buildings with the aggregated carrying amounts amounted to HKD373,506,000 (31 December 2013: HKD383,356,000).

8 OTHER NON-CURRENT ASSETS – GROUP

	2014 **HKD'000**	2013 HKD'000
Capitalized expenditure of development costs (a)	**9,197**	–
Prepayment for purchase of property, plant and equipment	**677**	7,741
Prepayment for equity investment	**–**	2,327
	9,874	10,068

(a) Research and development costs amounting to HKD115,197,000 were incurred for the year ended 31 December 2014 (2013: HKD88,979,000), of which cost of HKD9,197,000 (2013: Nil) relating to development of specific products were capitalised, with remaining balance being charged as expense in the consolidated income statement.

9 INTANGIBLE ASSETS – GROUP

	Patent HKD'000	Computer software HKD'000	Total HKD'000
At 1 January 2013			
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
Year ended 31 December 2014			
Opening net book amount	**30**	**125**	**155**
Amortization charge	**–**	**(94)**	**(94)**
Translation difference	**–**	**(1)**	**(1)**
Closing net book amount	**30**	**30**	**60**
At 31 December 2014			
Cost	**210**	**488**	**698**
Accumulated amortization	**(180)**	**(458)**	**(638)**
Net book amount	**30**	**30**	**60**

The amortization charge has all been included in administrative expenses in the consolidated income statement (2013: same).

10 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

Group	Loans and receivables HKD'000	Assets at fair value through the profit and loss HKD'000	Available-for-sale HKD'000	Total HKD'000
Assets				
At 31 December 2014:				
Derivative financial instruments (Note 12)	**–**	**2,978**	**–**	**2,978**
Available-for-sale financial assets (Note 11)	**–**	**–**	**11,031**	**11,031**
Trade and other receivables excluding prepayment (Note16)	**421,600**	**–**	**–**	**421,600**
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 18)	**171,686**	**–**	**–**	**171,686**
Total	**593,286**	**2,978**	**11,031**	**607,295**
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 prepayments (Note 16)	311,613	–	–	311,613
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 18)	457,029	–	–	457,029
Total	768,642	2,451	3,440	774,533

	Financial liabilities at amortised cost HKD'000
Liabilities	
At 31 December 2014:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 23)	**178,138**
At 31 December 2013:	
Trade and other payables excluding statutory liabilities and advance from customers (Note 23)	172,305

10 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(Continued)

Company	Loans and receivables HKD'000
Assets	
At 31 December 2014:	
Trade and other receivables (Note 16)	**328,154**
Cash and cash equivalents and term deposits with initial term of over three months (Note 18)	**11,586**
Total	**339,740**
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 18)	126,768
Total	443,536

	Financial liabilities at amortised HKD'000
Liabilities	
At 31 December 2014:	
Trade and other payables (Note 23)	**13,295**
At 31 December 2013:	
Trade and other payables (Note 23)	11,980

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2014 HKD'000	2013 HKD'000
At 1 January	**3,440**	–
Addition	**7,591**	3,440
At 31 December	**11,031**	3,440

Available-for-sale financial assets represent the Group's unlisted equity interest in a company established in Germany (denominated in USD) and a company established in Taiwan (denominated in TWD).

Given that these assets do not have quoted marked price, they are measured at cost less impairment at balance sheet date, which in the opinion of the directors, approximated the fair value of the assets.

12 DERIVATIVE FINANCIAL INSTRUMENTS — GROUP

	2014		2013	
	Assets HKD'000	**Liabilities HKD'000**	Assets HKD'000	Liabilities HKD'000
Call option embedded in investment in a joint venture (Note 14)	**2,451**	**–**	2,451	–
Call options embedded in investment in an associate	**527**	**–**	–	–
Call option embedded in investment in a joint venture (Note 14)	**2,978**	**–**	2,451	–

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:

	2014 HKD'000	2013 HKD'000
At 1 January	**2,451**	–
Call option in relation to investment in a joint venture	**1,269**	2,575
Losses recognized in profit or loss	**(742)**	(124)
At 31 December	**2,978**	2,451

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

	2014	2013
Risk-free rate	**1.03%**	1.03%
Expected volatility	**56.24%**	56.24%
Expected dividend yield	**0.00%**	0.00%

The fair value of the call option in relation to investment in an associate is estimated by discounting the expected future cash flow of the associate with significant inputs as follows:

	2014
Risk-free rate	**0.702%**
Expected volatility	**39.70%**
Expected dividend yield	**0.00%**

13 INVESTMENTS IN SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITY – COMPANY

(a) Investments in subsidiaries

	2014 **HKD'000**	2013 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 (i)	**81,150**	73,713
	514,632	507,195

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

(i) 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 36).

At 31 December 2014, the Company had direct or indirect interests in the following subsidiaries with limited liability:

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 ("O-Net Auto SZ")	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 ("O-Net Auto")	27 Jun 2012	Hong Kong	HKD10,000	–	100%	Investment holding
O-Net BVI	6 November 2006	BVI	USD28,991	100%	–	Investment holding
O-Net 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 ("O-Net Hong Kong")	25 September 2000	Hong Kong	HKD1,000,000	–	100%	Sales of optical networking products, Hong Kong

13 INVESTMENTS IN SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITY – COMPANY *(Continued)*

(b) Consolidation of structured entity

Due to the implementation of the restricted share award schemes of the Group mentioned in Note 36(b), the Company has also set up a structured entity ("O-net Share Award Plan Limited"), and its particulars are as follows:

Structured entity	Principal activities
O-net Share Award Plan Limited	Administering and holding the Company's shares acquired for restricted share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of O-net Share Award Plan Limited and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the O-net Share Award Plan Limited.

For the year ended 31 December 2014, the Company contributed HKD56,710,000 to O-net Share Award Plan Limited for financing its acquisition of the Company's shares.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – GROUP

The amounts recognised in the balance sheet are as follows:

	2014 HKD'000	2013 HKD'000
An associate (a)	**22,542**	–
A joint venture (b)	**17,669**	21,099
At 31 December	**40,211**	21,099

The amounts recognised in the income statement are as follows:

	2014 HKD'000	2013 HKD'000
An associate	**(1,638)**	–
A joint venture	**(3,420)**	(2,822)
For the year ended 31 December	**(5,058)**	(2,822)

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – GROUP

(Continued)

(a) Investment in an Associate

	2014 HKD'000
At 1 January	–
Additions (a)	**24,180**
Share of loss	**(1,638)**
At 31 December	**22,542**

Set out below is the detail of the only associate of the Group as at 31 December 2014. The associate has share capital consisting of ordinary shares and preferred shares. Preferred shares are held directly by the Group; the country of incorporation is also its principal place of business.

(i) Nature of investment in an associate as at 31 December 2014

Name of entity	Place of incorporation	% of ownership interest	Nature of the relationship	Measurement method
ArtIC Photonics, Inc. ("ArtIC") (Note 1)	Canada	38%	Note 1	Equity

Note 1: 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 at a cash consideration of USD3,100,000 (equivalent to approximately HKD24,180,000). ArtIC is a private 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. The Group was also granted a follow-up option to subscribe 2,857,091 preferred shares of ArtIC at fixed purchase price of USD2,000,000 in 18 months after 27 January 2014 and a buy-out option to acquire all the issued and outstanding shares not owned by O-Net at fixed purchase price of USD20,000,000 during 3 years from 27 January 2014. However, if the Group exercised the follow-up option in 18 months after 27 January 2014, the buy-out option exercise period can be extended to 6 years from 27 January 2014. As at 31 December 2014, the Group is not expected to exercise these options, as the options are out-of money and exercise of the option would be disadvantageous to the Group. Accordingly, the investment in ArtIC was accounted for as an associate by the Group.

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

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – GROUP *(Continued)*

(a) Investment in an Associate *(Continued)*

(ii) Summarized financial information for an associate

Set out below is the summarised financial information of ArtIC:

Summarized balance sheet

	2014 HKD'000
Current	
Cash and cash equivalents	3,646
Other current assets	10,935
Total current assets	14,581
Current liabilities	(432)
Non-current	
Total non-current assets	45,172
Net assets	59,321

Summarized statement of comprehensive income

	2014 HKD'000
Revenue	–
Research and development costs	(1,975)
Administrative expenses	(2,336)
Loss before income tax	(4,311)
Income tax expense	–
Loss for the period	(4,311)
Other comprehensive loss	–
Total comprehensive loss	(4,311)

The information above reflects the amounts as presented in the financial statements of ArtIC, adjusted for differences in accounting policies between the Group and the associate.

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – GROUP *(Continued)*

(a) Investment in an Associate *(Continued)*

(iii) Reconciliation of summarized financial information

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

Summarized financial information

	2014 **HKD'000**
Opening net assets as at date of investment	**63,632**
Loss for the period	**(4,311)**
Other comprehensive loss	**–**
Closing net assets	**59,321**
Interest in an associate (38%)	**22,542**
Carrying value	**22,542**

(b) Investment in a Joint Venture

	2014 **HKD'000**	2013 HKD'000
At 1 January	**21,099**	–
Additions (a)	**–**	23,944
Share of loss	**(3,420)**	(2,822)
Other comprehensive income	**(10)**	(23)
At 31 December	**17,669**	21,099

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

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – GROUP *(Continued)*

(b) Investment in a Joint Venture *(Continued)*

(i) Nature of investment in a joint venture as at 31 December 2014 and 2013:

Name of entity	Place 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 by the Group for the purpose of 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, 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.

(ii) Summarized financial information for a joint venture

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

Summarized balance sheet

	2014 HKD'000	2013 HKD'000
Current		
Cash and cash equivalents	**8,093**	16,901
Other current assets	**527**	81
Total current assets	**8,620**	16,982
Current liabilities	**(1,031)**	(757)
Non-current		
Total non-current assets	**36,584**	36,524
Net assets	**44,173**	52,749

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – GROUP *(Continued)*

(b) Investment in a Joint Venture *(Continued)*

(ii) Summarized financial information for a joint venture *(Continued)*

Summarized statement of comprehensive income

	2014 **HKD'000**	2013 HKD'000
Revenue	**–**	–
Research and development costs	**(5,149)**	(3,351)
Administrative expenses	**(3,400)**	(3,705)
Loss before income tax	**(8,549)**	(7,056)
Income tax expense	**–**	–
Loss for the year/period	**(8,549)**	(7,056)
Other comprehensive income	**(27)**	(55)
Total comprehensive income	**(8,576)**	(7,111)

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.

(iii) 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

	2014 **HKD'000**	2013 HKD'000
Opening net assets 1 January 2014 and date of investment	**52,749**	59,860
Loss for the year/period	**(8,549)**	(7,056)
Other comprehensive income	**(27)**	(55)
Closing net assets	**44,173**	52,749
Interest in a joint venture (40%)	**17,669**	21,099
Carrying value	**17,669**	21,099

15 INVENTORIES – GROUP

	2014 HKD'000	2013 HKD'000
Cost:		
Raw materials	**95,768**	64,555
Work-in-progress	**52,688**	62,119
Finished goods	**56,543**	51,599
	204,999	178,273
Less: provision for write-down of inventories to net realizable values	**(7,773)**	(14,977)
	197,226	163,296

For the year ended 31 December 2014, the cost of inventories recognized as cost of sales, selling and marketing costs, research and development expenses and administrative expenses amounted to HKD425,913,000 (2013: HKD337,500,000).

For the year ended 31 December 2014, the Group reversed inventory write-down of approximately HKD7,124,000 (2013: provision for write-down of inventories – HKD8,375,000). These amounts have been included in 'cost of sales' in the consolidated income statement.

16 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2014 HKD'000	2013 HKD'000	**2014 HKD'000**	2013 HKD'000
Trade receivables (a)	**304,199**	252,175	**–**	–
Less: provision for impairment of receivables (b)	**(727)**	(480)	**–**	–
Trade receivables – net	**303,472**	251,695	**–**	–
Amounts due from related parties (a) (Note 34(d))	**5,427**	3,886	**–**	–
Amounts due from subsidiaries	**–**	–	**288,984**	278,729
Bills receivable (c)	**72,093**	45,199	**–**	–
Prepayments	**12,416**	6,345	**–**	–
Interest receivables	**1,822**	3,056	**–**	39
Other receivables (d)	**38,786**	7,777	**1,170**	–
Dividend receivables	**–**	–	**38,000**	38,000
	434,016	317,958	**328,154**	316,768
Less non-current portion: other receivables (d)	**(29,640)**	–	**–**	–
Current portion	**404,376**	317,958	**328,154**	316,768

All non-current receivables are due within five years from the end of the year.

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Except for the non-current portion of other receivable, the Group does not hold any collateral as security.

At 31 December 2014, the fair value of trade and other receivables of the Group and the Company approximated their carrying amounts (2013: same).

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

	Group		**Company**	
	2014	2013	**2014**	2013
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**222,065**	181,221	**–**	–
USD	**206,875**	127,056	**1,170**	–
HKD	**3,883**	2,900	**326,984**	316,768
JPY	**1,193**	6,781	**–**	–
	434,016	317,958	**328,154**	316,768

The credit period generally granted to customers is from 30 to 150 days. The ageing analysis of trade receivables based on invoice date is as follows:

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

	Group	
	2014	2013
	HKD'000	HKD'000
Within 30 days	**96,777**	95,680
31 to 60 days	**77,969**	69,034
61 to 90 days	**69,885**	54,618
91 to 180 days	**53,002**	27,166
181 to 365 days	**5,393**	5,713
Over 365 days	**6,600**	3,850
	309,626	256,061

At 31 December 2014, trade receivables of HKD100,559,000 (2013: HKD73,805,000) 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	
	2014	2013
	HKD'000	HKD'000
Past due 1 to 90 days	**76,964**	58,554
Past due 91 to 180 days	**16,312**	12,343
Past due 181 to 365 days	**4,328**	2,338
Past due over 365 days	**2,955**	570
	100,559	73,805

At 31 December 2014, trade receivables of HKD727,000 (2013: HKD480,000) 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	
	2014	2013
	HKD'000	HKD'000
Past due over 365 days	**727**	480

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

	Group	
	2014	2013
	HKD'000	HKD'000
At 1 January	**480**	509
Provision/(Write-down) of impairment	**247**	(40)
Translation difference	**–**	11
At 31 December	**727**	480

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:

	Group	
	2014	2013
	HKD'000	HKD'000
Within 30 days	**11,373**	8,772
31 to 90 days	**24,493**	14,550
91 to 180 days	**36,227**	21,877
	72,093	45,199

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

(d) Other receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third party supplier of the Group pursuant to an agreement signed between O-Net Shenzhen, a subsidiary of the Company, and IPI during the year. Under the agreement, O-Net Shenzhen will ensure stable supply of goods by IPI in coming 5 years. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD29,640,000) to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum.

17 OTHER CURRENT ASSET – GROUP

	2014	2013
	HKD'000	HKD'000
Value-added tax to be recovered	**7,498**	1,776

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

	Group		Company	
	2014	2013	**2014**	2013
	HKD'000	HKD'000	**HKD'000**	HKD'000
Cash and cash equivalents	**69,514**	281,828	**11,586**	126,768
Term deposits with initial term of over three months	**101,411**	155,662	**–**	–
Pledged bank deposits (a)	**761**	19,539	**–**	–
	171,686	457,029	**11,586**	126,768

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

(a) The pledged bank deposits had been pledged as guarantee for payables to contractors and suppliers for the construction of a new factory facility and for bills payables to raw material suppliers of the Group.

(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**	
	2014	2013	**2014**	2013
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**143,778**	404,930	**302**	118,546
USD	**14,500**	45,708	**19**	5,348
HKD	**13,408**	6,327	**11,265**	2,874
EUR	**–**	64	**–**	–
	171,686	457,029	**11,586**	126,768

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 2014 was 3.22% (2013: 2.84%).

19 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES – 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 2013 and 2014	10,000,000,000	100,000,000

19 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES – GROUP AND COMPANY *(Continued)*

	Issued and fully paid up-ordinary shares of par value of HKD0.01 each		Share premium	Treasury shares
	Number of shares	HKD'000	HKD'000	HKD'000
At 1 January 2013	755,549,240	7,556	893,360	–
Repurchase of shares during the year	(31,679,000)	(317)	(45,936)	–
At 31 December 2013	723,870,240	7,239	847,424	–
Repurchase and cancellation of shares during the year (a)	**(21,210,000)**	**(213)**	**(46,105)**	**(1,225)**
Share award schemes-shares purchased for restricted share award schemes (b)	**–**	**–**	**–**	**(56,634)**
Exercise of share options	**1,579,000**	**16**	**3,000**	**–**
At 31 December 2014	**704,239,240**	**7,042**	**804,319**	**(57,859)**

(a) During the year ended 31 December 2014, the Company repurchased and cancelled 21,893,000 and 21,210,000 ordinary shares, respectively. The remaining 683,000 shares were cancelled in February, 2015.

(b) During the year ended 31 December 2014, O-net Share Award Plan Limited acquired and withheld 25,000,000 ordinary shares of the Company for a total consideration of HKD56,634,000 (2013: zero), which had been deducted from shareholders' equity. As at 31 December 2014, the 25,000,000 ordinary shares held by O-net Share Award Plan Limited had not yet been granted to the employees.

20 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
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 income of a joint venture	–	–	–	–	(23)	(23)
At 31 December 2013	1,092	99,430	(85,421)	91,442	(23)	106,520
At 1 January 2014	**1,092**	**99,430**	**(85,421)**	**91,442**	**(23)**	**106,520**
Share option scheme – value of services (Note 26)	**-**	**7,543**	**-**	**-**	**-**	**7,543**
Repurchase of shares	**213**	**-**	**-**	**-**	**-**	**213**
Currency translation differences	**-**	**-**	**-**	**(2,294)**	**-**	**(2,294)**
Share of other comprehensive income of a joint venture	**-**	**-**	**-**	**-**	**(10)**	**(10)**
At 31 December 2014	**1,305**	**106,973**	**(85,421)**	**89,148**	**(33)**	**111,972**

(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.

20 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
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)
At 31 December 2013	1,092	75,117	(1,090)	75,119
At 1 January 2014	**1,092**	**75,117**	**(1,090)**	**75,119**
Share option scheme – value of services	**–**	**7,437**	**–**	**7,437**
Repurchase of shares	**213**	**–**	**–**	**213**
Currency translation differences	**–**	**–**	**191**	**191**
At 31 December 2014	**1,305**	**82,554**	**(899)**	**82,960**

21 RETAINED EARNINGS – GROUP AND COMPANY

	Group HKD'000	Company HKD'000
At 1 January 2013	422,483	25,902
Repurchase and cancellation of shares	(317)	(317)
Profit for the year	13,375	6,050
Dividends relating to 2012	(22,666)	(22,666)
At 31 December 2013	412,875	8,969
At 1 January 2014	**412,875**	**8,969**
Repurchase and cancellation of shares	**(213)**	**(213)**
Profit/(loss) for the year	**43,344**	**(4,141)**
At 31 December 2014	**456,006**	**4,615**

22 DEFERRED GOVERNMENT GRANTS – GROUP

	2014 HKD'000	2013 HKD'000
At 1 January	**6,118**	–
Receipt of grant during the year (a)	**10,788**	6,227
Credited to income statement	**(2,698)**	(354)
Currency translation difference	**(32)**	245
At 31 December	**14,176**	6,118

(a) The amount represented subsidy granted by local government authority in the PRC for financing acquisition of equipment in relation to research and development amounted to RMB8,510,000 (equivalent to HKD10,788,000) in 2014 (2013: HKD6,227,000).

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.

23 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2014 HKD'000	2013 HKD'000	2014 HKD'000	2013 HKD'000
Trade payables (a)	**152,067**	118,501	**–**	–
Amounts due to subsidiaries	**–**	–	**13,183**	11,930
Bills payable (c)	**1,522**	1,367	**–**	–
Accrued expenses	**8,986**	12,309	**112**	50
Payroll payables	**20,213**	17,756	**–**	–
Other payables	**15,496**	39,141	**–**	–
Amounts due to related parties	**67**	987	**–**	–
Advance from customers	**2,396**	6,597	**–**	–
Other taxes payable	**1,075**	4,205	**–**	–
	201,822	200,863	**13,295**	11,980

At 31 December 2014, the fair value of trade and other payables of the Group and the Company approximated their carrying amounts due to their short maturities (2013: same).

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

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

	Group	
	2014	2013
	HKD'000	HKD'000
Within 30 days	**41,735**	36,135
31 days to 60 days	**50,009**	36,758
61 days to 180 days	**53,862**	41,566
181 days to 365 days	**3,319**	367
Over 365 days	**3,142**	3,675
	152,067	118,501

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

	Group		Company	
	2014	2013	**2014**	2013
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**140,550**	175,639	**13,295**	11,930
USD	**55,094**	10,960	**–**	–
HKD	**5,828**	13,970	**–**	50
EUR	**350**	–	**–**	–
JPY	**–**	294	**–**	–
	201,822	200,863	**13,295**	11,980

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

	Group	
	2014	2013
	HKD'000	HKD'000
Within 30 days	**1,522**	171
31 to 90 days	**–**	1,196
	1,522	1,367

24 DEFERRED INCOME TAX – GROUP

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

	2014 HKD'000	2013 HKD'000
Deferred income tax assets:		
– to be recovered within 12 months	**5,827**	5,276
– to be recovered after more than 12 months	**109**	560
	5,936	5,836
Deferred income tax liabilities:	**–**	–

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

	2014 HKD'000	2013 HKD'000
Deferred tax assets:		
At 1 January	**5,836**	4,316
Credit to the consolidated income statement (Note 29)	**116**	1,360
Translation difference	**(16)**	160
At 31 December	**5,936**	5,836

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 2013	440	998	–	2,878	4,316
(Charged)/credited 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
At 1 January 2014	**370**	**2,300**	**918**	**2,248**	**5,836**
(Charged)/credited to the consolidated income statement	**(252)**	**(1,036)**	**1,216**	**188**	**116**
Translation difference	**–**	**(8)**	**(8)**	**–**	**(16)**
At 31 December 2014	**118**	**1,256**	**2,126**	**2,436**	**5,936**

24 DEFERRED INCOME TAX – GROUP *(Continued)*

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.

No deferred income tax assets and liabilities had been offset during the year ended 31 December 2014 (2013: same).

25 OTHER GAINS – NET – GROUP

	2014	2013
	HKD'000	HKD'000
Government grants (a)	**6,865**	1,552
Rental income	**746**	1,964
Gain on sales of scrapped or surplus raw materials	**1,183**	971
Loss on disposal of property, plant and equipment-net	**–**	(740)
Investment income	**1,269**	3,228
Fair value loss on derivative financial instruments	**(742)**	(124)
Others	**(815)**	45
	8,506	6,896

(a) Included in the government grant are amortisation of deferred government grant of HKD2,698,000, the remaining was mainly cash received from the Finance Committee of Shenzhen Municipality government and was recognized during the year upon receipt.

26 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:

	2014 HKD'000	2013 HKD'000
Staff costs-excluding share options granted to directors and employees (Note 27)	**229,152**	198,802
Share option expenses – for options granted to directors and employees (Note 27)	**7,543**	10,721
Raw materials consumed (Note 15)	**421,824**	321,829
Changes in inventories of finished goods and work in progress (Note 15)	**4,089**	9,441
Depreciation (Note 7)	**47,678**	38,581
Amortization (Notes 6, 9)	**759**	786
Provision/(Write-down) of trade receivable impairment (Note 16)	**247**	(40)
(Reversal)/Provision for inventory write-down (Note 15)	**(7,124)**	8,375
Sales commissions	**12,476**	13,696
Utilities charges	**32,839**	31,705
Operating lease rental (Note 7(b))	**2,966**	5,313
Freight charges	**6,968**	5,349
Auditors' remuneration	**2,584**	2,451
Professional expenses	**5,489**	1,642
Travelling expenses	**4,651**	3,224
Advertising costs	**955**	1,296
Other tax levies	**11,163**	6,230
Others	**7,616**	7,750
	791,875	667,151

27 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS – GROUP

	2014 HKD'000	2013 HKD'000
Salaries, bonus and other welfares	**215,216**	185,410
Pension – defined contribution plans (a)	**13,936**	13,392
Share options granted to directors and employees	**7,543**	10,721
	236,695	209,523

27 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 2014 and 2013, 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 2014 is set out below:

Name of director	**Fees HKD'000**	**Salary HKD'000**	**Share Options expense HKD'000**	**Other benefits and allowance HKD'000**	**Pension Scheme contribution HKD'000**	**Total HKD'000**
Mr. Na Qinglin (i)	**–**	**2,100**	**–**	**–**	**17**	**2,117**
Mr. Chen Zhujiang	**–**	**150**	**–**	**–**	**–**	**150**
Mr. Huang Bin	**–**	**150**	**–**	**–**	**–**	**150**
Mr. Tam Man Chi	**–**	**150**	**–**	**–**	**–**	**150**
Mr. Deng Xinping	**300**	**–**	**68**	**–**	**–**	**368**
Mr. Ong Chor Wei	**300**	**–**	**68**	**–**	**–**	**368**
Mr. Zhao Wei	**300**	**–**	**207**	**–**	**–**	**507**
	900	**2,550**	**343**	**–**	**17**	**3,810**

The remuneration of each director of the Company for the year ended 31 December 2013 is set out below:

Name of director	Fees HKD'000	Salary HKD'000	Share Options expense HKD'000	Other benefits and allowance HKD'000	Pension Scheme contribution HKD'000	Total HKD'000
Mr. Na Qinglin (i)	–	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

(i) Mr. Na Qinglin is the Chairman of the Board, as well as the Chief executive of the Group.

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

(c) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include one director for the year ended 31 December 2014 (2013: one), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining four (2013: four) individuals are as follows:

	2014 **HKD'000**	2013 HKD'000
Basic salaries	**8,242**	4,533
Pension costs	**91**	45
Bonus	**570**	627
Share option expenses	**2,940**	2,345
	11,843	7,550

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

	2014	2013
Emolument bands		
HKD1,500,001 – HKD2,000,000	**2**	–
HKD2,000,001 – HKD2,500,000	**2**	1
HKD2,500,001 – HKD3,000,000	**–**	3
HKD3,000,001 – HKD3,500,000	**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 2014 (2013: none).

28 FINANCE INCOME – GROUP

	2014 **HKD'000**	2013 HKD'000
Interest income derived from bank deposits and other investment	**5,068**	5,040
Exchange gain	**3,443**	11,574
	8,511	16,614

29 INCOME TAX EXPENSES – GROUP

	2014 HKD'000	2013 HKD'000
Current income tax		
– Hong Kong profits tax (b)	**681**	450
– PRC enterprise income tax (c)	**7,455**	2,574
Total current income tax	**8,136**	3,024
Deferred income tax (Note 24)	**(116)**	(1,360)
Income tax expenses	**8,020**	1,664

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

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

(c) The applicable tax rate for O-net USA is 34%.

(d) 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 enterprise income tax rate of 15% for a period of 3 years from 2012 to 2014. The applicable tax rate for O-net Auto SZ is 25%.

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:

	2014 HKD'000	2013 HKD'000
Profit before income tax	**51,364**	15,039
Tax calculated at statutory tax rates applicable to entities comprising the Group	**4,404**	(1,954)
Tax effect of:	**–**	
Research and development costs eligible for additional deduction	**(5,709)**	(5,256)
Utilisation of previously unrecognised tax loss	**(821)**	–
Tax losses of which no deferred income tax asset was recognised	**8,110**	6,116
Expenses not deductible for tax purposes		
– Share option expenses	**1,473**	2,680
– Others	**563**	78
Income tax expenses	**8,020**	1,664

30 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HKD4,141,000 (2013: profit of HKD5,733,000).

31 DIVIDENDS

The Board does not recommend any final dividend for year ended 31 December 2014 (2013: none).

32 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.

	2014	2013
Profit attributable to equity holders of the Company (HKD'000)	**43,344**	13,375
Weighted average number of ordinary shares in issue (thousands)	**687,295**	741,362
Basic EPS (HKD per share)	**0.06**	0.02

(b) Diluted

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

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2014	2013
Profit attributable to equity holders of the Company (HKD'000)	**43,344**	13,375
Weighted average number of ordinary shares in issue (thousands shares)	**687,295**	741,362
Adjustments for share options (thousands shares)	**2,686**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**689,981**	741,362
Diluted EPS (HKD per share)	**0.06**	0.02

33 CASH GENERATED FROM OPERATIONS – GROUP

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

	2014 HKD'000	2013 HKD'000
Profit before income tax	**51,364**	15,039
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 9)	**48,437**	39,367
(Reversal)/Provision for write-down of inventories (Note 15)	**(7,124)**	8,375
Write-back of impairment provision for doubtful receivables (Note 16)	**247**	(40)
Gain on disposal of property, plant and equipment	**–**	(740)
Interest income (Note 28)	**(5,064)**	(5,040)
Share of loss of investments accounted for using the equity method (Note 14)	**5,078**	2,822
Fair value of derivative financial instruments (Note 25)	**(527)**	(3,104)
Fair value of share options charged to profit or loss (Note 27)	**7,543**	10,721
Changes in working capital:		
– Inventories	**(26,725)**	5,069
– Trade and other receivables	**(143,884)**	(73,058)
– Trade and other payables	**46,562**	45,406
– Pledged bank deposits	**18,778**	(3,948)
Cash (used in)/generated from operating activities	**(5,315)**	40,869

Non-cash transactions

During the year ended 31 December 2014, the Group settled an outstanding payable balance of approximately HKD26,576,000 (2013: HKD21,411,000) due to several suppliers by endorsing certain bills receivable by the Group.

34 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:

	2014	2013
	HKD'000	HKD'000
Not later than one year	**2,903**	2,326
Later than one year	**4,940**	5,970
	7,843	8,296

Capital Commitments

	2014	2013
	HKD'000	HKD'000
Capital expenditure contracted for but not provided	**47,425**	67,483

35 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY

(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.

35 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 2014 and 2013:

Non-recurring transactions

	2014 **HKD'000**	2013 HKD'000
Sales of goods		
Qingdao Hisense	**21,815**	5,791
Butterfly	**2,731**	200
	24,546	5,991
Purchases of fixed assets from a related party		
Butterfly	**–**	663
Rental income received from a related party		
Butterfly	**795**	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.

(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:

	2014 **HKD'000**	2013 HKD'000
Salaries, bonus and other welfares	**17,151**	12,505
Pension – defined contribution plans	**141**	119
Share option expenses	**4,323**	7,377
	21,615	20,001

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

(d) Balances with Related Parties

In 2014 and 2013, the Group had the following balances with related parties:

	2014 HKD'000		2013 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	**4,638**	**5,428**	3,886	3,886
Butterfly	**1,675**	**2,189**	–	–
	6,313	**7,617**	3,886	3,886
Other payables (i)				
Butterfly	**67**	**67**	987	987

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

36 SHARE-BASED PAYMENTS

(a) Share Option Schemes

(i) 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 2014, the outstanding number of share options under the pre-IPO share option scheme was 924,145 (2013: 975,987 shares) with the expiry dates between April 2015 and 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.

(ii) Post-IPO Share Option Scheme

During the years ended 31 December 2014, 2013 and 2012, the Company granted share options to certain employees and directors under the Post-IPO Share Option Scheme adopted by the Group on 9 April 2010 ("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.

36 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Schemes *(Continued)*

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

Details of the Post-IPO share options are as follows:

Date of grant	Number of share options granted	Number of share options outstanding as at 31 December 2014	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.
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)	23,081,000	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.

36 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Schemes *(Continued)*

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

Date of grant	Number of share options granted	Number of share options outstanding as at 31 December 2014	Exercise price	Vesting date
9 October 2012	Tranches 1, 2, 3, 4 & 5: 400,000 (Total: 2,000,000)	2,000,000	HKD1.810	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.
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.

36 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Schemes *(Continued)*

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

Date of grant	Number of share options granted	Number of share options outstanding as at 31 December 2014	Exercise price	Vesting date
8 Nov 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000 (Total: 10,300,000)	8,820,000	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.
9 April 2014	Tranches 1, 2, 3, 4 & 5: 374,000 (Total: 1,870,000)	1,390,000	HKD2.40	Tranches 1, 2, 3, 4& 5 (for certain employees): vesting period commences at 28 March 2015, equally over a period of 5 years.
		48,191,000		

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

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

	2014 Average exercise price in HKD per share option	**2014** Options (thousands)	2013 Average exercise price in HKD per share option	2013 Options (thousands)
At 1 January	**1.76**	**53,640**	1.90	39,928
Granted	**2.40**	**1,870**	1.56	19,550
Forfeited	**1.94**	**(4,816)**	1.89	(5,838)
Exercised	**1.91**	**(1,579)**	–	–
At 31 December	**1.76**	**49,115**	1.76	53,640

As at 31 December 2014, out of the 49,115,000 outstanding options (2013: 53,640,000 shares) 31,700,194 options (2013: 22,984,375 shares) were exercisable. 1,579,000 options were exercised in 2014 (2013: none).

36 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Schemes *(Continued)*

(iv) 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 2014	Options (thousands)	
		2014	2013
2015*	–	**267**	290
2016*	–	**657**	686
2020	1.79	**48,191**	52,664

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

The weighted average fair value of options granted during 2014 determined using the Trinomial valuation model was HKD1.26 per option (2013: HKD1.56). The significant inputs into the model were exercise price shown above, volatility of 61.79% (2013: 61.688%), dividend yield of 0% (2013: 1.75%), an expected option life of 6 years (2013: 6.62), expected retention rate of the employees at 88% (2013: 88%), and an annual risk-free interest rate of 1.597% (2013: 1.212%). The volatility measured at the standard deviation of continuously compounded share returns is 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

(b) Restricted Share Award Schemes

On 9 May 2014, the Company adopted a restricted share award scheme as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. The Company appointed O-Net Share Award Plan Limited as the trustee.

Movements in the number of shares held for the Restricted Share Award Schemes and awarded shares for the years ended 31 December 2014 are as follows:

	Number of shares held for the Restricted Share Award Schemes	Number of awarded shares	Total
At 1 January 2014	**–**	**–**	**–**
Purchased and withheld (Note 19)	**25,000,000**	**–**	**25,000,000**
At 31 December 2014	**25,000,000**	**–**	**25,000,000**

37 SUBSEQUENT EVENT

On 30 January 2015, the Group acquired the entire issued share capital of Avensys Inc. ("Avensys") and the sale loan with a cash consideration of USD5,000,000. Avensys is a company incorporated in Canada, which is principally engaged in design, manufacture, distribution, and marketing of high reliability optical components and modules as well as fiber bragg gratings (FBGs) for the telecom market and high power devices and sub-assemblies for the industrial market.

Up to the date of issuing this consolidated financial statements, the fair value evaluation of the identifiable assets and liabilities acquired through above business combination are not yet completed, therefore the related financial information of the acquire and the goodwill that would be arisen is not disclosed here.

Five-Year Financial Summary

CONSOLIDATED INFORMATION

For the year ended 31 December

	2014 **HKD'000**	2013 HKD'000	2012 HKD'000	2011 HKD'000	2010 HKD'000
Profitability and operating data					
Turnover	**831,280**	661,502	727,368	669,381	660,577
Gross profit	**288,949**	211,778	300,439	299,836	337,816
Selling and marketing costs	**36,386**	30,319	37,141	35,275	33,035
Research and development expenses	**105,952**	88,979	73,137	50,854	31,828
Administrative expenses	**107,206**	98,129	93,555	90,241	67,305
Profit before tax	**51,364**	15,039	114,128	154,195	203,729
Profit for the year	**43,344**	13,375	97,810	133,449	181,609
Profitability ratios					
Gross profit margin	**34.8%**	32.0%	41.3%	44.8%	51.1%
Profit before tax margin	**6.2%**	2.3%	15.7%	23.0%	30.8%
Net profit margin	**5.2%**	2.0%	13.4%	19.9%	27.5%
Operating ratios					
(as a percentage of revenue)					
Selling and marketing costs	**4.4%**	4.6%	5.1%	5.3%	5.0%
Research and development expenses	**12.7%**	13.5%	10.1%	7.6%	4.8%
Administrative expenses	**12.9%**	14.8%	12.8%	13.5%	10.2%

As at 31 December

	2014 **HKD'000**	2013 HKD'000	2012 HKD'000	2011 HKD'000	2010 HKD'000
Assets and liabilities data					
Non-current assets	**766,374**	643,062	492,449	274,151	114,646
Current assets	**780,786**	940,059	1,096,170	1,295,569	1,303,163
Non-current liabilities	**14,176**	6,118	–	–	–
Current liabilities	**211,504**	202,945	199,948	199,826	168,467
Equity	**1,321,480**	1,374,058	1,388,671	1,369,894	1,249,342