Interim Report 2010

O-Net Communications (Group) Limited
昂納光通信(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 877)

CONTENTS

CORPORATE INFORMATION

COMPANY NAME
O-Net Communications (Group) Limited

FINANCIAL YEAR END
31 December

PLACE OF INCORPORATION
Cayman Islands

REGISTERED OFFICE
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
10-1 South
Maqueling Industrial Park
Nanshan District
Shenzhen 518057
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 1608
West Tower of Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE
www.o-netcom.com

BOARD OF DIRECTORS

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

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

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

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

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

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

AUTHORIZED REPRESENTATIVES
Mr. Na Qinglin
Mr. Kung Sze Wai (AAIA, AHKSA)

ALTERNATE AUTHORIZED REPRESENTATIVE
Mr. Xue Yahong (alternate to Mr. Na Qinglin)

COMPANY SECRETARY
Mr. Kung Sze Wai (AAIA, AHKSA)

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

LEGAL ADVISOR 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 & Sterling

AUDITOR

PricewaterhouseCoopers

PROPERTY VALUER

Jones Lang LaSalle Sallmanns Limited

COMPLIANCE ADVISOR

Quam Capital Limited

PRINCIPAL BANKERS

China
China Merchants Bank
China Construction 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 Shares Capital
773,095,240 shares

Board Lot Size
1,000 shares

CAYMAN SHARE REGISTRAR

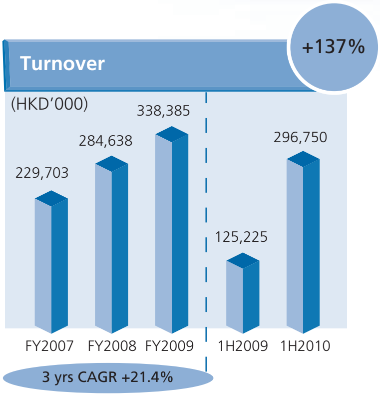
Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

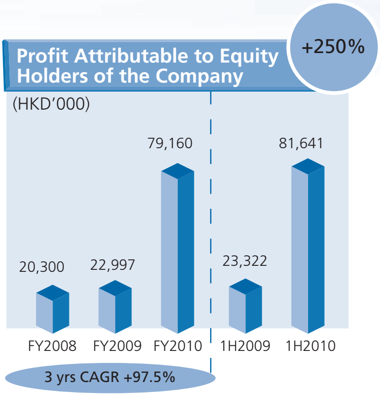
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

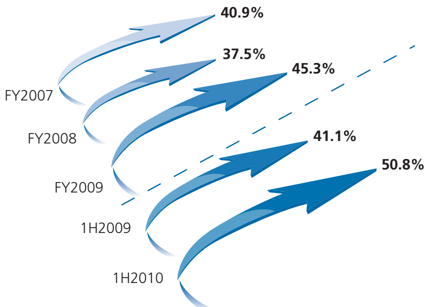
Turnover



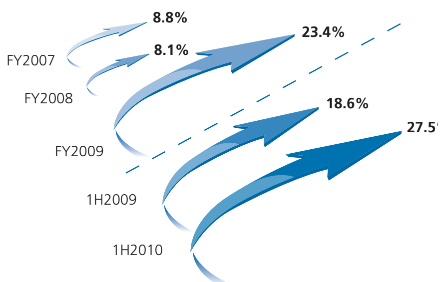
Profit Attributable to Equity Holders of the Company



Gross Profit Margin

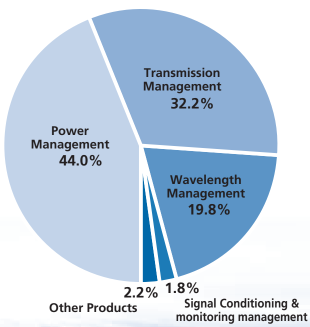


Net Profit Margin



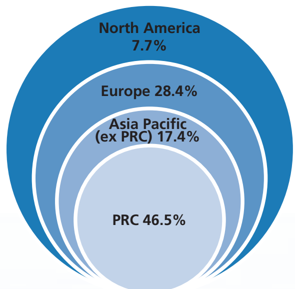
Turnover by Product Segment

1H2010



Turnover by Geographical Segment

1H2010



MANAGEMENT DISCUSSION AND ANALYSIS

The Group has focused on the research, development, manufacture and sale of passive fiber optic components mainly used in fiber optic network system. During the first half of 2010, the Group achieved remarkable results.

MARKET REVIEW

The outburst of the global financial turmoil has taken place for more than one year, the economic environment has become more stable. The deepest distress should have been through and a moderate continuous up-moving trend emerges gradually. International Monetary Fund (IMF) updated the World Economic Outlook on 8 July 2010, where it forecasted that an approximately 4.5% and 4.25% growth in the world economy this year and next year will be recorded, respectively. Supported by the recovery of global economy, which make some countries increase or accelerate their plans on the telecommunication expenses in international market. Meanwhile, the rise in domestic demand in China has helped fuel the return of rapid economic growth in China. In domestic market, the Group maintained its presence steadily in the market of PRC fiber optic components suppliers and also one of the beneficiaries in huge capital expenditure (the "Capex") plan in China.

BUSINESS REVIEW

The first half of 2010 has been a remarkable period for the Group in terms of business growth. The global economic recovery started in 2009 and increasing demand for bandwidth have led to surge in need for fiber optic equipment. We experienced strong demand from customers all over the world, for all major product categories what we are engaged in. As a result, the Company is pleased to report record high growth in top line, and with greater economies of scale, even faster growth in bottom line.

During the first half of 2010, the Company further expanded its operation scale to cope with increasing demand from customers. The Company has significantly increased capacity in power management, wavelength management and transmission management product lines. Total operating space was increased by 1,564 square meters. Total headcount has increased to 2,154 as of 30 June 2010, from 1,518 as of end of 2009.

The Company has continued its success in customer development and new product launches. During the first half of 2010, the Company has successfully completed qualifications with two new customers in China and further enhanced business relationships with additional customers in Europe. The Company has also started shipment of a few new products targeting at 40G and 100G next-generation networking technology areas. In the meantime, the Company has stepped up its effort in the next generation research and development including new projects and related equipment and staffing.

The successful listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 29 April 2010 (the "Listing Date") has further improved the Company's financial position and overall competitiveness. The net proceeds from the initial public offering (the "IPO") amounted to approximately HKD512.8 million.

FINANCIAL REVIEW

Revenue

Revenues for the six months ended 30 June 2010 were HKD296.8 million, an increase of HKD171.6 million, or 137.1%, from revenues of HKD125.2 million for the six months ended 30 June 2009. Revenues from the power management segment were HKD130.5 million for the six months ended 30 June 2010, an increase of HKD85.7 million or 191.3%, from revenues of HKD44.8 million from the power management segment for the six months ended 30 June 2009. Revenues from the transmission management segment were HKD95.6 million for the six months ended 30 June 2010, an increase of HKD52.0 million, or 119.3%, from revenues of HKD43.6 million from the transmission management segment for the six months ended 30 June 2009. Revenues from the wavelength management segment were HKD58.7 million for the six months ended 30 June 2010 an increase of HKD30.4 million, or 107.4%, from revenues of HKD28.3 million from the wavelength management segment for the six months ended 30 June 2009. Revenues from the signal conditioning and monitoring management segment were HKD5.4 million for the six months ended 30 June 2010, an increase of HKD2.8 million, or 107.7%, from revenues of HKD2.6 million from the signal conditioning and monitoring management segment for the six months ended 30 June 2009. Revenues from the other segment were HKD6.6 million for the six months ended 30 June 2010, an increase of HKD0.7 million, or 11.9%, from revenues of HKD5.9 million from the others segment for the six months ended 30 June 2009.

The increase in revenues in the six months ended 30 June 2010 is primarily attributable to growth of customer demand in Europe and China, added by increasing purchase orders from customers in Asia Pacific (excluding China) and U.S.. The increase in revenues from the power management segment is primarily attributable to growth of variable optical attenuators ("VOA") products sales to the customers around the world, added by increasing demand for erbium doped fiber amplifiers ("EDFA") products as we qualified these products with new and existing customers. The increase in revenues from the transmission management segment is primarily attributable to the increasing shipment of wavelength lockers, added by increasing demand for our optical isolators from existing customers in China. The increase in revenues from the wavelength management segment is primarily attributable to the increase of new wavelength management products, added by growing demand for dense wavelength division multiplexing ("DWDM") products. The increase in revenues from the signal conditioning and monitoring management segment is primarily attributable to growth of the demand for tap PD products. The increase in revenues from the other segment is primarily attributable to growing demand for our etalon products in first half of 2010.

Gross Profit and Gross Profit Margin

Gross profit for the six months ended 30 June 2010 was HKD150.8 million, an increase of HKD99.3 million, or 192.8%, from gross profit of HKD51.5 million for the six months ended 30 June 2009. Gross profit as a percentage of total revenues, or gross profit margin, increased to 50.8% for the six months ended 30 June 2010 as compared to 41.1% for the six months ended 30 June 2009. As more fully described below, this increase was caused by a focus on higher margin products, price reductions in raw materials and improved production efficiency. The increase in gross profit margin was primarily attributable to improvement of gross profit margin in power management and wavelength management segments by launching of higher margin products in these categories. Our gross profit margin of power management segment increased from 35.1% for the six months ended 30 June 2009 to 49.1% for the six months ended 30 June 2010 as a result of increasing sales of new VOA products which carry higher margin than conventional EDFA products. Our gross profit margin of wavelength management segment also increased from 44.3% for the six months ended 30 June 2009 to 54.8% for the six months ended 30 June 2010 as a result of new products such as interleavers which have higher margin in this category, added by the improvement of production yield in WDM products. The gross profit margin of our transmission management segment was 52.7% for the six months ended 30 June 2010 which is same with the gross profit margin for the six months ended 30 June 2009 primarily as a result of the improved production efficiency and yield improvement as sales increased and the decrease of cost of key materials offset partially by the price concessions we offered to our customers. In addition, new products launched by us such as wavelength lockers have a higher profit margin than other existing transmission management products. Our gross profit margin of signal conditioning and monitoring segment increased from 39.6% for the six months ended 30 June 2009 to 46.6% for the six months ended 30 June 2010 primarily due to improvement of cost structure of tap PD products. Our gross profit margin of other segment increased from -12.8% for the six months ended 30 June 2009 to 25.5% for the six months ended 30 June 2010 primarily due to the new etalon products which carry high gross margin.

Other Gains

Other gains for the six months ended 30 June 2010 were HKD0.4 million, a decrease of HKD1.3 million, or 76.5%, from other gains of HKD1.7 million for the six months ended 30 June 2009. Such decrease is primarily the result of government grants reduced by HKD1.5 million for the six months ended 30 June 2010 as compared to 2009.

Selling and Marketing Costs

Selling and marketing costs for the six months ended 30 June 2010 were HKD15.3 million, an increase of HKD8.6 million, or 128.4%, from selling and marketing costs of HKD6.7 million for the six months ended 30 June 2009. The increase in selling and marketing costs was primarily attributable to increasing sales commission we paid to our sales distributors around the world, and increase in freight expenses. Selling and marketing costs as a percentage of revenues decreased to 5.2% for the six months ended 30 June 2010 as compared to 5.4% for the six months ended 30 June 2009. The decrease in selling and marketing costs as a percentage of revenues was primarily attributable to a higher revenue base and lower sales and marketing costs attributable to the increasing sales in China. We generally cover customers in China directly by our own sales team and therefore do not pay commission.

Staff expenses excluding share option expenses for the six months ended 30 June 2010 were HKD1.8 million, an increase of HKD0.5 million, or 38.5%, from HKD1.3 million for the six months ended 30 June 2009. The increase was primarily attributable to increased hiring of sales personnel in 2010.

Sales commissions for the six months ended 30 June 2010 were HKD9.2 million, an increase of HKD6.5 million, or 240.7%, from HKD2.7 million for the six months ended 30 June 2009. The increase was primarily attributable to the fact that our overseas revenues for the six months ended 30 June 2010 increased by HKD94.8 million, or 147.9% from our overseas revenues for the six months ended 30 June 2009. We generally do not incur distributor commission for sales in China, the effective commission rate, which is the result of total commissions paid by the company divided by total overseas revenues, was 4.2% for the six months ended 30 June 2009 and 5.8% for the six months ended 30 June 2010. The increase in effective commission rate is due to we pay relatively higher commission on the new products which started volume shipment in 2010.

Utilities expenses for the six months ended 30 June 2010 were HKD0.8 million, an increase of HKD0.4 million, or 100%, from HKD0.4 million for the six months ended 30 June 2009. The increase was primarily attributable to hiring more sales personnel in 2010.

Freight expenses for the six months ended 30 June 2010 were HKD1.8 million, an increase of HKD1.0 million, or 125.0%, from HKD0.8 million for the six months ended 30 June 2009. The increase was primarily attributable to increased sales and shipping activities in 2010.

Advertising expenses for the six months ended 30 June 2010 were HKD0.4 million which is approximately same with the advertising expenses for the six months ended 30 June 2009 as the Company essentially kept the same marketing activities including trade shows and advertisings in 2009 and 2010.

Research and Development Expenses

Research and development ("R&D") expenses for the six months ended 30 June 2010 were HKD14.2 million, an increase of HKD6.8 million, or 91.9%, from R&D expenses of HKD7.4 million for the six months ended 30 June 2009. The increase in R&D expenses was primarily attributable to the increase in material costs related to the R&D projects and staff costs. R&D expenses as a percentage of revenues decreased to 4.8% for the six months ended 30 June 2010 as compared to 5.9% for the six months ended 30 June 2009. The decrease in R&D expenses as a percentage of revenues was primarily attributable to faster revenue growth than that of R&D expenses.

Staff expenses excluding share option expenses for the six months ended 30 June 2010 were HKD5.4 million, an increase of HKD1.5 million, or 38.5%, from HKD3.9 million for the six months ended 30 June 2009. The increase was primarily attributable to increased hiring of research and development personnel.

Raw material costs for the six months ended 30 June 2010 were HKD6.9 million, an increase of HKD4.8 million, or 228.6%, from HKD2.1 million for the six months ended 30 June 2009. The increase was primarily attributable to new R&D projects the Company undertook in first half 2010, particularly on the 40G and 100G areas.

Administrative Expenses

Administrative expenses for the six months ended 30 June 2010 were HKD24.4 million, an increase of HKD10.8 million, or 79.4%, from HKD13.6 million for the six months ended 30 June 2009. The increase in administrative expenses was primarily attributable to increase in staff expenses and auditor's remuneration expenses. Administrative expenses as a percentage of revenues decreased to 8.2% for the six months ended 30 June 2010 as compared to 10.9% for the six months ended 30 June 2009 primarily because of the faster growth of revenue and economy of scales achieved.

Staff expenses for the six months ended 30 June 2010 were HKD12.3 million, an increase of HKD4.2 million, or 51.9%, from HKD8.1 million for the six months ended 30 June 2009. The increase was primarily attributable to increased hiring of staff in 2010 as the Company increases its operation scale.

Auditor's remuneration expenses for the six months ended 30 June 2010 were HKD1.9 million, an increase of HKD1.8 million as compared to the six months ended 30 June 2009. The increase was primarily attributable to the expenses associated with half year financial audit as a result of being a public company.

Finance Costs

Finance costs for the six months ended 30 June 2010 were HKD4.3 million, as compared to a finance income HKD0.3 million for the six months ended 30 June 2009. The change from finance income to finance costs was primarily attributable to an increase in foreign exchange loss during the period due to the exchange loss from IPO net proceeds which is denominated in HKD rather than RMB.

Profit before Tax and Profit before Tax Margin

Profit before tax increased by HKD67.2 million from HKD25.7 million for the six months ended 30 June 2009 to HKD92.9 million for the six months ended 30 June 2010. Profit before tax as a percentage of total revenues, namely profit before tax margin, increased from 20.5% for the six months ended 30 June 2009 to 31.3% for the six months ended 30 June 2010. The increase in profit before tax and profit before tax margin for the six months ended 30 June 2010 was primarily due to an increase in gross profit margin of 50.8% as compared to 41.1% of the same period in 2009 and a decrease in overall expenses incurred during the six months ended 30 June 2010.

Income Tax Expense

Current income tax expenses of the Company consist of the Hong Kong profits tax and PRC Enterprise Income Tax ("PRC EIT").

The applicable tax rate for Hong Kong profits is 16.5%. No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the six months ended 30 June 2010.

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

Tax expenses for the six months ended 30 June 2010 were HKD11.3 million, an increase of HKD8.9 million, or 370.8% from a tax expense of HKD2.4 million for the six months ended 30 June 2009. The increase in tax expenses was primarily due to an increase of our profits in 2010 and an increase of the enacted tax rate of O-Net Shenzhen from 10% in 2009 to 11% in 2010.

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

Profit attributable to equity holders increased by HKD58.3 million from HKD23.3 million for the six months ended 30 June 2009 to HKD81.6 million for the six months ended 30 June 2010. Profit attributable to equity holders as a percentage of total revenues, namely net profit margin, increased from 18.6% for the six months ended 30 June 2009 to 27.5% for the six months ended 30 June 2010. The increase in profit attributable to equity holders and net profit margin for the six months ended 30 June 2010 was primarily due to an increase in gross profit margin of 50.8% as compared to 41.1% of the same period in 2009 and a decrease in overall expenses incurred during the six months ended 30 June 2010.

Profit Forecast disclosed in the Prospectus

The Group's consolidated profit attributable to equity holders for the six months ended 30 June 2010 was approximately HKD81.6 million, being approximately 23.8% higher than the profit forecast as disclosed in the prospectus of the Company dated 19 April 2010 (the "Prospectus"), primarily due to the substantial increase in the sales volume, added by improvement in gross profit margin of the products in the Group's core business and lower amount of operating expenses due to our cost control efforts.

Non-GAAP Financial Measures

The Group believes that providing non-GAAP financial measures are helpful for investors comparing our financial performance with most of the comparable companies listed on NASDAQ in the United States which also providing 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 issued by the Hong Kong Institute of Certified Public Accountants. A reconciliation of non-GAAP financial measures can be found in the accompanying tables. The Group believes that, while these non-GAAP financial measures are not a substitute for results, they provide a basis for evaluating the Company's cash requirements for ongoing operating activities. These non-GAAP financial measures have been reconciled to the nearest measures as required under Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

	Six months ended 30 June	
	2010	2009
	HKD'000	*HKD'000*
Adjustment to measure non-GAAP gross profit:		
Gross profit	**150,779**	51,457
Adjustment related to cost of sales:		
Written back of provision for inventories	**(1,998)**	–
Non-GAAP gross profit	**148,781**	51,457
Adjustments to measure non-GAAP net profit:		
Net profit	**81,641**	23,322
Adjustment related to cost of sales:		
Written back of provision for inventories	**(1,998)**	–
	79,643	23,322
Adjustments related to operating expenses:		
Share options granted to directors, employees and sales distributors	**2,693**	1,680
Amortization to intangible assets	**375**	351
Non-GAAP net profit	**82,711**	25,353
Non-GAAP EPS		
– Basic	**0.1278**	0.0437
– Diluted	**0.1277**	0.0437
Non-GAAP gross profit margin	**50.1%**	41.1%
Non-GAAP net profit margin	**27.9%**	20.2%

RESEARCH AND DEVELOPMENT

The Group continuously expands the size of its R&D team to enhance its R&D capabilities in respect of launching new products. During the period under review, the Group's major R&D projects undertaken and key products launched included some new type amplifiers, wavelength lockers and demodulators.

COMPREHENSIVE DEVELOPMENT OF NEW PRODUCTS

The Group is proactively engaged in the R&D of new products, and it has successfully increased the number of suitable R&D and quality control experts in the industry in order to keep abreast of the latest information and technology in the world for maintaining its leading position in the industry. The Group has increased investment in technology which is mainly for accelerating the development of new products, standardizing the technology basic administration, enhancing the improvement of technology and optimizing the structure of existing products. The Group actively expanded the product structure, enriched product categories and gradually developed new products, such as Tunable Dispersion Compensators (TDC) and Optical Channel Monitors (OCM).

FUTURE PROSPECTS

Network bandwidth demand has been the ultimate driving force of the demand for our industry. The macro-economic fundamentals continue to point positively towards our industry growth – the number of broadband users continues to rise; new applications such as video continue to proliferate; and network carriers are working hard to satisfy the ever-growing need of their customers.

As the market and industry evolves, we will continue to execute our business plan to expand our core technology platforms, vertically-integrated business model, operation efficiency and customer base. We have established core competence in a couple of key optical technologies such as coating and precision processing. The Company is further investing in other key technology areas. The Company is further developing other core technology parts to supplement its supply chain and optimize cost structure. The Company has also successfully engaged more customers with new product offerings, particularly in the fast-growing 40G and 100G areas. The addition of new products and customers will benefit the Company's revenue and profit growth for future years to come.

We are a company with an unique business model in the fiber optic component industry and well-established leadership in our focused areas. As the industry continues to grow, we strongly believe the Company is well positioned to take advantage of the trend and deliver outstanding growth in the future.

Group's Liquidity, Financial Resources and Capital Structure

As at 30 June 2010, the Company's issued share capital was HKD7,730,952.4 divided into 773,095,240 shares of HKD0.01 each and the total equity of the Group was approximately HKD796.4 million (31 December 2009: HKD188.4 million). The Group had current assets of HKD843.7 million and current liabilities of HKD137.7 million and the current ratio was 6.1 times (31 December 2009: 1.9 times). The Group's net debt-to-equity ratio (calculated as total borrowings net of cash and cash equivalents over shareholders' equity) and gearing ratio (calculated as total borrowings over shareholders' equity) was not applicable as at 30 June 2010 since the Group did not have any borrowing. As of 30 June 2010, the Group had cash and cash equivalents of approximately HKD547.3 million (31 December 2009: HKD26.5 million). The significant increase was due to net proceeds from IPO. 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.

Pledge on Group Assets

As at 30 June 2010, the Group had not pledged any of its assets to its bankers to secure banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

During the period under review, the Group was committed to the expansion of existing facilities and building of new facilities to enhance its production capacity. As at 30 June 2010, the Group has contractual capital commitments of approximately HKD1.5 million. As at 30 June 2010, the directors of Company had also authorized a capital expenditure of approximately HKD200 million for the construction of a new factory facility. As of 30 June 2010, 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 six months ended 30 June 2010, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plants and machinery, office equipment and construction in progress of approximately HKD25.9 million (2009: HKD1.7 million).

Exposure to Fluctuations in Exchange Rates and Related Hedge

The costs and expenses of the Group are predominantly in RMB, whereas the Group's revenues are mainly in US dollars and RMB. As such the Group face foreign exchange and conversion risks primarily through sales that are denominated in currencies other than RMB. Fluctuation in the exchange rate between RMB and the US dollar may adversely affect our business, financial condition and results of operations.

The Group currently do not have a foreign currency hedging policy. However, management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Save for the net proceeds from IPO, the Group will also monitor and maintain a US dollar cash balance in order to minimize the need for unnecessary foreign exchange conversion which may result in exchange loss. For further details, please refer to the section headed "Risk Factors – Fluctuation in the value of the Renminbi could expose us to foreign currency risks and may have an adverse effect on our financial position" in the Prospectus.

The reporting currency of the Group is presented in HKD, which is the Group's presentation currency, as the directors consider that such presentation is more appropriate for a company to be listed in Hong Kong and for the convenience of the shareholders. The Group's cash and bank deposits are mostly denominated in HK dollars. The Company will pay dividends in Hong Kong Dollars if dividends are declared.

Employee Benefit

As at 30 June 2010, the Group had a total of 2,154 employees (2009: 1,518). The Group's staff cost (including directors' fees) amounted to HKD50.7 million (2009: HKD28.0 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice.

The Group have provided to the employees with medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

A share option scheme, which was adopted before the IPO (the "Pre-IPO Share Option Scheme"), and another share option scheme, which was adopted by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"), are both equity-settled, share-based compensation schemes, under which the entity receives the services from eligible participants as consideration for equity instruments (options). Eligible participants include any directors, employee, consultant, professional, customer, supplier, agent, partner or adviser of 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 period ended 30 June 2010, options in aggregate of 30,648,000 shares were granted to 5 Directors and 315 employees of the Group. The Directors believe that the compensation package offered by the Group to staff members are competitive in comparison with market standards and practices.

Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended 30 June 2010 (2009: Nil).

Significant Investments Held and Material Acquisition

Save for the undertaking of the reorganization in preparation for the listing of the Company's shares on HKSE as more particularly described in the Prospectus, the Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2010.

Future Plans for Material Investments/Capital Assets & Source of Fund

As at 30 June 2010, the Group maintained sufficient funds for the capital investment and operations in the coming year.

Material Event since the End of the Financial Period

Apart from the 'Future Plans and Use of Proceeds' as set out in the Prospectus, there has been no other important event affecting the Group since 30 June 2010.

Use of Net Proceeds from the Company's Initial Public Offering

The Company was listed on HKSE on 29 April 2010 with net proceeds from the IPO amounted to approximately HKD512.8 million. Due to the foreign exchange control in PRC, most of the net proceeds from the IPO was deposited into a licensed financial institution in Hong Kong. The Group will apply the net proceeds from the IPO in the manner set out in the Prospectus.

Directors' Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2010 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 debenture, of the Company or any other body corporate.

OTHER INFORMATION

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

As at 30 June 2010, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

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

Name	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of a controlled corporation	Long position	280,003,463 *(Note 1)*	36.22%
	Beneficial owner	Long position	6,000,000 *(Note 2)*	0.78%
Mr. Xue Yahong	Beneficial owner	Long position	500,000 *(Note 2)*	0.06%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.21%
Mr. Bai Xiaoshu	Beneficial owner	Long position	500,000 *(Note 2)*	0.06%
Mr. Deng Xingping	Beneficial owner	Long position	500,000 *(Note 2)*	0.06%
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000 *(Note 2)*	0.06%

Notes:

1. These 280,003,463 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 49.18% by Mandarin IT Fund I, which is managed by its investment manager, Mandarin VP (BVI) Limited, a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned approximately 75% by Mr. Na Qinglin, an Executive Director, Co-Chairman and CEO of the Company; therefore, Mr. Na Qinglin is deemed to be interested in these 280,003,463 Shares held by O-Net Holdings (BVI) Limited under the SFO.

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

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

As at 30 June 2010, 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:

Interests and short positions of substantial shareholders in shares and underlying shares of the Company

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	252,929,237	32.72%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	252,929,237 *(Note 1)*	32.72%
Great Wall Technology Company Limited	Interest of a controlled corporation	Long position	252,929,237 *(Note 1)*	32.72%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	280,003,463	36.22%
Mandarin IT Fund I	Interest of a controlled corporation	Long position	280,003,463 *(Notes 2 & 3)*	36.22%
HC Capital Limited	Interest of a controlled corporation	Long position	280,003,463 *(Notes 2 & 3)*	36.22%
Hsin Chong International Holdings Limited	Interest of a controlled corporation	Long position	280,003,463 *(Notes 2 & 3)*	36.22%
Yeh Meou Tsen Geoffery	Interest of a controlled corporation	Long position	280,003,463 *(Notes 2 & 3)*	36.22%
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	280,003,463 *(Notes 2 & 4)*	36.22%
Mandarin Venture Partners Limited	Interest of a controlled corporation	Long position	280,003,463 *(Notes 2 & 4)*	36.22%
Mr. Na Qinglin	Interest of a controlled corporation	Long position	280,003,463 *(Notes 2 & 4)*	36.22%
	Beneficial owner	Long position	6,000,000 *(Note 5)*	0.78%

Notes:

(1) These 252,929,237 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 252,929,237 Shares under the SFO.

(2) These 280,003,463 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 49.18% by Mandarin IT Fund I.

(3) Mandarin IT Fund I is owned as to 37.25% by HC Capital Limited, an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited with Mr. Yeh Meou Tsen Geoffery as its controlling shareholder; therefore, each of Mandarin IT Fund I, HC Capital Limited, Hsin Chong International Holdings Limited and Mr. Yeh Meou Tsen Geoffrey is deemed to be interested in 280,003,463 Shares under the SFO.

(4) Mandarin IT Fund I is managed by its investment manager, Mandarin VP (BVI) Limited, which is a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned approximately 75% by Mr. Na Qinglin, an Executive Director, Co-Chairman and CEO of the Company; therefore, each of Mandarin VP (BVI) Limited, Mandarin Venture Partners Limited and Mr. Na Qinglin is deemed to be interested in 280,003,463 Shares held by O-Net Holdings (BVI) Limited under the SFO.

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

Share Option Schemes

Details of the Pre-IPO Share Option Scheme are set out in the Prospectus and Note 28(a) to the financial statements.

Post–IPO Share Option Scheme

The purpose of the Post–IPO Share Option Scheme is to give our Directors, senior management and employees an opportunity to have a personal stake in the Company and help motivate its employees to optimize their performance and efficiency, and also to retain employees whose contributions are important to the long-term growth and profitability of the Group. On 2 June 2010, the Company granted share options to certain Directors and employees under the Post–IPO Share Option Scheme.

A total of 8,000,000 share options were granted to 5 Directors of the Company on 2 June 2010, details of which are as follows:

Name of category	Date of grant of share options	Exercise period of share options	Exercise price of share options *(HK$)*	Outstanding at 1 January 2010	Granted/ (lapsed) during the period	Outstanding at 30 June 2010
Directors						
Mr. Na Qinglin	2 June 2010	2 June 2011 to 8 April 2020 *(Note 1)*	3.128	–	6,000,000	6,000,000
Mr. Xue Yahong	2 June 2010	2 June 2013 to 8 April 2020 *(Note 2)*	3.128	–	500,000	500,000
Mr. Deng Xinping	2 June 2010	2 June 2011 to 8 April 2020 *(Note 1)*	3.128	–	500,000	500,000
Mr. Bai Xiaoshu	2 June 2010	2 June 2011 to 8 April 2020 *(Note 1)*	3.128	–	500,000	500,000
Mr. Ong Chor Wei	2 June 2010	2 June 2011 to 8 April 2020 *(Note 1)*	3.128	–	500,000	500,000

Notes:

1. The vesting period commences at the end of the anniversary of the date of grant, i.e. 2 June 2011, equally over a period of 5 years.

2. The vesting period commences at the end of the third anniversary of the date of grant, i.e. 2 June 2013, equally over a period of 3 years.

Apart from the above, options totaling 22,648,000 shares under the Post-IPO Share Option Scheme were granted to 315 employees of the Group on 2 June 2010. Except for the options which had been granted on 2 June 2010, no further options were granted during the six months ended 30 June 2010. Details of the share options granted under Post-IPO Share Option Scheme are set out in Note 28(b) to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

Subsequent to the Listing Date and up to the date of this interim report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the period from 29 April 2010 to 30 June 2010.

The Code on Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules.

During the period from 29 April 2010 to 30 June 2010, the Company was in compliance with code provisions set out in the CG Code except for the deviations from code provision A.2.1 which is explained below.

Code provision A.2.1 of the CG Code provides that the responsibilities between the chairman ("Chairman") and chief executive officer ("CEO") should be divided. The Company has a CEO, Mr. Na Qinglin and he currently also performs as a Co-Chairman. The Board believes that vesting the roles of both Co-Chairman and CEO in the same person has the benefit of ensuring consistent leadership within the 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 calibre individuals with sufficient number thereof being independent non-executive Directors.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the period from 29 April 2010 to 30 June 2010.

Audit Committee

The Company established an audit committee (the "Audit Committee") on 9 April 2010 with written terms of reference in compliance with the CG Code, and currently comprises three independent non-executive Directors, Mr. Bai Xiaoshu, Mr. Deng Xinping and Mr. Ong Chor Wei. The Audit Committee is chaired by Mr. Ong Chor Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the audited interim financial statements for the six months ended 30 June 2010 before they were tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

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

Hong Kong, 10 August 2010

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Floor Prince's Building
Central, Hong Kong

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

We have audited the consolidated financial statements of O-Net Communications (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 88, which comprise the consolidated balance sheet as at 30 June 2010, 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 six months then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 the Group's affairs as at 30 June 2010 and of its profit and cash flows for the six months then ended in accordance with Hong Kong Financial Reporting Standards.

OTHER MATTER

The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows and the related disclosure notes of the Group for the six months ended 30 June 2009 were not audited by us but were subject to review in accordance with Hong Kong Standard on Review Engagement 2410, "Review of interim financial information performed by the independent auditor of the entity" with an unqualified review conclusion. A review engagement is substantially less in scope than an audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 August 2010

CONSOLIDATED BALANCE SHEET

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

	Note	**As at 30 June 2010 HKD'000**	As at 31 December 2009 HKD'000
ASSETS			
Non-current assets			
Land use right	6	**28,357**	28,396
Property, plant and equipment	7	**60,472**	40,157
Intangible assets	8	**823**	496
Deferred income tax assets	17	**732**	924
		90,384	69,973
Current assets			
Inventories	9	**78,528**	56,293
Trade and other receivables	11	**217,851**	169,508
Cash and cash equivalents	12	**547,309**	26,544
		843,688	252,345
Total assets		**934,072**	322,318
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital	13	**7,731**	–
Reserves		**788,663**	188,381
Total equity		**796,394**	188,381

	Note	As at 30 June 2010 HKD'000	As at 31 December 2009 HKD'000
LIABILITIES			
Current liabilities			
Trade and other payables	16	**126,191**	123,040
Current income tax liabilities		**11,487**	10,897
		137,678	133,937
Total liabilities		**137,678**	133,937
Total equity and liabilities		**934,072**	322,318
Net current assets		**706,010**	118,408
Total assets less current liabilities		**796,394**	188,381

Na Qinglin
Director

Xue Yahong
Director

The notes on pages 31 to 88 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

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

		For the six months ended 30 June	
		2010	2009 (unaudited) *(Note 30)*
	Note	***HKD'000***	*HKD'000*
Revenue	*18*	**296,750**	125,225
Cost of sales	*19*	**(145,971)**	(73,768)
Gross profit		**150,779**	51,457
Other gains – net	*18*	**416**	1,706
Selling and marketing costs	*19*	**(15,316)**	(6,742)
Research and development expenses	*19*	**(14,201)**	(7,439)
Administrative expenses	*19*	**(24,405)**	(13,567)
Operating profit		**97,273**	25,415
Finance income	*21*	**33**	698
Finance costs	*21*	**(4,358)**	(365)
Finance (costs)/income – net	*21*	**(4,325)**	333
Profit before income tax		**92,948**	25,748
Income tax expenses	*22*	**(11,307)**	(2,426)
Profit for the period		**81,641**	23,322
Profit attributable to:			
Equity holders of the Company		**81,641**	23,322
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	*24*	**0.1262**	0.0402
– Diluted	*24*	**0.1261**	0.0402

The notes on pages 31 to 88 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

		For the six months ended 30 June	
		2010	2009 (unaudited) *(Note 30)*
	Note	***HKD'000***	*HKD'000*
Profit for the period		**81,641**	23,322
Other comprehensive income			
Currency translation differences		**3,197**	(1,796)
Total comprehensive income for the period		**84,838**	21,526
Total comprehensive income attributable to:			
Equity holders of the Company		**84,838**	21,526

The notes on pages 31 to 88 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 (unaudited, Note 30)				
	Share capital	Share premium	Other reserves *(Note 14)*	Accumulated deficits *(Note 15)*	Total equity
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
Balance at 1 January 2009	–	216,706	(63,817)	(46,294)	106,595
Comprehensive income					
Profit for the period	–	–	–	23,322	23,322
Other comprehensive income					
Currency translation differences	–	–	(1,796)	–	(1,796)
Total other comprehensive income	–	–	(1,796)	–	(1,796)
Total comprehensive income	–	–	(1,796)	23,322	21,526
Share option scheme – value of services *(Note 28)*	–	–	1,679	–	1,679
Balance at 30 June 2009	–	216,706	(63,934)	(22,972)	129,800

	Attributable to equity holders of the Company				
	Share capital	**Share premium**	**Other reserves *(Note 14)***	**Retained earnings *(Note 15)***	**Total equity**
	HKD'000	***HKD'000***	***HKD'000***	***HKD'000***	***HKD'000***
Balance at 1 January 2010	**–**	**210,674**	**(55,159)**	**32,866**	**188,381**
Comprehensive income					
Profit for the period	**–**	**–**	**–**	**81,641**	**81,641**
Other comprehensive income					
Currency translation differences	**–**	**–**	**3,197**	**–**	**3,197**
Total other comprehensive income	**–**	**–**	**3,197**	**–**	**3,197**
Total comprehensive income	**–**	**–**	**3,197**	**81,641**	**84,838**
Share option scheme – value of services *(Note 28)*	**–**	**–**	**2,693**	**–**	**2,693**
Issue of ordinary shares *(Note 13)*	**7,731**	**552,781**	**–**	**–**	**560,512**
Share issuance costs	**–**	**(40,030)**	**7,702**	**–**	**(40,030)**
Balance at 30 June 2010	**7,731**	**723,425**	**(49,269)**	**114,507**	**796,394**

The notes on pages 31 to 88 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	For the six months ended 30 June **2010** **HKD'000**	2009 (unaudited) *(Note 30)* HKD'000
Cash flows from operating activities			
Cash generated from operating activities	25	**38,663**	7,418
Interest paid		**–**	(365)
Income tax paid		**(10,623)**	–
Net cash from operating activities		**28,040**	7,053
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(24,306)**	(1,737)
Purchase of intangible assets		**(394)**	–
Interest received		**33**	25
Proceeds from disposal of property, plant and equipment		**–**	10
Net cash used in investing activities		**(24,667)**	(1,702)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**560,512**	–
Payments of share issuance costs		**(43,266)**	–
Repayments of borrowings		**–**	(11,063)
Repayment of amount due to a related party		**(100)**	–
Net cash from/(used in) financing activities		**517,146**	(11,063)
Net increase/(decrease) in cash and cash equivalents		**520,519**	(5,712)
Cash and cash equivalents at the beginning of the period		**26,544**	22,979
Exchange difference		**246**	10
Cash and cash equivalents at the end of the period		**547,309**	17,277

The notes on pages 31 to 88 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION AND GROUP REORGANIZATION

(a) General Information

O-Net Communications (Group) Limited (the "Company") was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company and was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, PO 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").

The consolidated financial statements are presented in Hong Kong dollar ("HKD"), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 10 August 2010.

(b) Group Reorganization and Basis of Consolidation

Prior to incorporation of the Company, the Listing Business was owned by O-Net Communications Limited ("O-Net Cayman"), a company collectively controlled by Mandarin IT Fund I, Mariscal Limited, O-Net Employee Plan Limited ("O-Net Trust"), Mr. Na Qinglin, Mr. Xue Yahong as a group (the "Shareholders Group") and Kaifa Technology (H.K.) Limited ("Kaifa HK", altogether defined as the "Controlling Shareholders").

In preparation for the IPO, a group reorganization (the "Reorganization") was undertaken, pursuant to which the group companies engaged in the Listing Business owned by O-Net Cayman were transferred to the Company. The Reorganization involved the following:

(i) On 6 November 2006, O-Net Communications Holdings Limited ("O-Net BVI") was incorporated in the British Virgin Islands ("BVI"). At the time of its establishment, O-Net BVI was wholly owned by Mr. Na Qinglin. In March 2007, Mr. Na Qinglin transferred all his equity interest in O-Net BVI to O-Net Cayman;

(ii) On 12 March 2007, O-Net BVI entered into agreements to acquire O-Net Cayman's equity interest in O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen") and O-Net Communications (HK) Limited ("O-Net Hong Kong"), the two subsidiaries engaging in the Listing Business at a consideration of HKD24,274,000;

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

1 GENERAL INFORMATION AND GROUP REORGANIZATION (Continued)

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policy and Disclosures

(a) New and Amended Standards Adopted by the Group

The following new standards and amendments to standards are mandatory and relevant to the Group for the financial year beginning 1 January 2010:

- HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates", and HKAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company has accounted for the transaction under reorganization occurred during the current period in 2010 with reference to HKFRS 3 (Revised). However, as mentioned in Note 1 above, as the Company has not involved in any other businesses prior to the Reorganization and does not meet the definition of a business, the Reorganization is not considered as a business combination.

- HKFRS 2 (Amendment), "Share-based payment". The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. There was no substantial impact arising from this amendment.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010. The Group has early adopted the amendment to HKFRS 8 "Operating segment" in 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policy and Disclosures (Continued)

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group:

- "Additional exemptions for first-time adopters" (Amendment to HKFRS 1).
- HK(IFRIC)-Int 17, "Distributions of non-cash assets to owners".
- HKAS 39 (Amendment), "Eligible hedged items".
- Annual improvement projects published in 2008 and 2009 to amend the following standards:
  - HKAS 1 (Amendment) Presentation of financial statements
  - HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - HKAS 7 (Amendment) Cash flow statements
  - HKAS 17 (Amendment) Leases
  - HKAS 18 (Amendment) Revenue
  - HKAS 36 (Amendment) Impairment of assets
  - HKAS 38 (Amendment) Intangible assets
  - HKAS 39 (Amendment) Financial instruments: Recognition and measurement
  - HKFRS 2 (Amendment) Share-based Payment
  - HK(IFRIC)-Int 9 (Amendment) Reassessment of embedded derivatives
  - HK(IFRIC)-Int 16 (Amendment) Hedges of a net investment in a foreign operation

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policy and Disclosures (Continued)

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group:

	Effective for annual periods beginning on or after
HKFRS 9, "Financial instruments" – Classification and Measurement	1 January 2013
HKAS 24 (Revised) "Related party disclosures"	1 January 2011
HKAS 32 (Amendment) Financial Instruments: Presentation	1 February 2010
HK(IFRIC) 14 (Amendment) HKAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions	1 January 2011
HK(IFRIC)-Int 19, "Extinguishing financial liabilities with equity instruments"	1 July 2010
HKFRS 1 (Revised) First-time Adoption of International Financial Reporting Standards	1 July 2010
Annual improvement project published in 2010 to amend the following standards: – HKFRS 7 Financial Instruments: Disclosures – HKAS 1 Presentation of Financial Statements – Transition requirements for amendments arising as a result of HKAS 27 Consolidated and Separate Financial Statements – HKAS 34 Interim Financial Reporting – HK(IFRIC)-Int 13 Customer Loyalty Programmes – HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – HKFRS 3 Business Combinations	1 January 2011

The group is in the process of making an assessment of the impact of these new/revised standards and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for those acquisitions that qualify as business combinations under common control, which are accounted for using merger accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The particulars of the Group's subsidiaries as at June 30 2010 are set out in Note 29.

2.4 Segment Reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign Currency Translation

(a) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The functional currency of the Company is Chinese Renminbi Yuan ("RMB"). The consolidated financial statements is presented in HKD, which is the Group's presentation currency, as the directors consider that such presentation is more appropriate for a company to be listed in Hong Kong and for the convenience of the shareholders.

(b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(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 are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Land Use Right

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

2.7 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the consolidated income statement in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values which is 0%-5% of the cost over their estimated useful lives, as follows:

Machinery	5-10 years
Motor vehicles	5 years
Furniture, fitting and equipment	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within other gains – net in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible Assets

(a) Patent

Patent represents purchased technology from third party. It has a finite life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over its estimated useful life of 7 years.

(b) Computer Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line method over their estimated useful lives of 5 years.

2.9 Impairment of Investments in Subsidiaries and Non-financial Assets

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group only has financial assets classified as "loans and receivables" during the reporting periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated balance sheet.

(b) Recognition and Measurement

Regular way purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortized cost using the effective interest method.

2.11 Impairment of Financial Assets

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and Other Receivables

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

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

2.14 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Share Capital

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Trade Payables

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

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

2.17 Current and Deferred Income Tax

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

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.

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 Financial Information. 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 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.

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

2.18 Employee Benefits

(a) Employee Leave Entitlements

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

(b) Pension Obligations

In accordance with the rules and regulations in the People's Republic of China (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.

(c) Share-based Compensation

The Group operates 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"). These two share option schemes 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 directors, employee, consultant, professional, customer, supplier, agent, partner or adviser of 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 (see Note 28 for more details). Under the Post-IPO Share Option Scheme, the shares authorized for issuance of options are the shares of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee Benefits (Continued)

The share options granted are accounted for in accordance with HKFRS 2 "Share-based payment" and HK(IFRIC) 11 "IFRS 2 – Group and treasury share transactions". The fair value of the services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions and any non-vesting conditions and excluding the impact of any service and non-market performance vesting conditions. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions.

2.19 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.

2.20 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Revenue Recognition (Continued)

(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 on a time-proportion basis using the effective interest method.

2.21 Research and Development Costs

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

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

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

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

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

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

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually. No development costs had been capitalized during the six months ended 30 June 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 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 in the consolidated income statement on a straight-line basis over the period of the lease.

2.23 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement as other gain over the period necessary to match them with the costs they are intended to compensate.

2.24 Dividend Distribution

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

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, price risk, credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Financial Risk Factor

(a) Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from future commercial transactions, recognized assets and liabilities which are denominated in foreign currencies. The majority of the Group's foreign currency transactions and balances are denominated in United States dollar ("USD") and HKD. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factor (Continued)

(a) Foreign Exchange Risk (Continued)

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities as at 30 June 2010 and 31 December 2009 are as follows:

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Assets *(Note 11, 12)*		
USD	**164,566**	90,990
HKD	**501,419**	1,495
Japanese Yen ("JPY")	**620**	3,202
Liabilities *(Note 16)*		
USD	**31,075**	16,664
HKD	**980**	7,282
Euro	**–**	17

The following table shows the sensitivity analysis of an increase/decrease of 5% in RMB against the major foreign currencies at 30 June 2010 and 31 December 2009 respectively. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factor (Continued)

(a) Foreign Exchange Risk (Continued)

If there is a 5% increase in RMB against USD and HKD at the period/year end, the major foreign currencies which the Group has engaged its transactions with, the effect in the profit before income tax is as follows:

	For the six months ended 30 June 2010 *HKD'000*	For the year ended 31 December 2009 *HKD'000*
USD		
Decrease in profit before income tax	**3,270**	3,421
HKD		
(Decrease)/increase in profit before income tax	**(25,022)**	27

If there is a 5% decrease in RMB against USD and HKD, the major foreign currencies which the Group has engaged its transactions with, the effect in the profit before income tax is as follows:

	For the six months ended 30 June 2010 *HKD'000*	For the year ended 31 December 2009 *HKD'000*
USD		
Increase in profit before income tax	**3,270**	3,421
HKD		
Increase/(decrease) in profit before income tax	**25,022**	(27)

(b) Interest Rate Risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets. Fluctuation of market rates does not have a significant impact to the Group's performance. The Group does not have any interest-bearing liabilities.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factor (Continued)

(c) Price Risk

As at 30 June 2010 and 31 December 2009, the Group did not hold equity securities traded publicly. It is not exposed to commodity price risk.

(d) Credit Risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, and trade and other receivables.

The carrying amounts of cash and cash equivalents and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

For cash and cash equivalents, management manages the credit risk by placing all bank deposits in state-owned financial institutions in the PRC or reputable banks which are high-credit-quality financial institutions in both the PRC and Hong Kong. The details are as follows:

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Balances placed with listed banks in the PRC/Hong Kong	**521,348**	23,101
Balance placed with unlisted bank in the PRC	**25,936**	3,385
	547,284	26,486

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectation.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factor (Continued)

(e) Liquidity Risk

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

As at 30 June 2010 and 31 December 2009, the Group's financial liabilities were all due within 12 months from the balance sheet date. Their contractual amounts to be paid approximate to their carrying amounts as shown in the consolidated balance sheet.

3.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains consistent throughout the Relevant Periods.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity owners, 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 debt-to-equity ratios as at 30 June 2010 and 31 December 2009 are as follows:

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Financing from a related party *(Note 27(d)ii)*	**–**	33,951
Less: cash and cash equivalents *(Note12)*	**(547,309)**	(26,544)
Net debt	**(547,309)**	7,407
Total equity	**796,394**	188,381
Debt-to-equity ratio	**Not applicable**	3.9%

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair Value Estimation

The Group adopts the amendments to HKFRS 7 "Financial Statements: disclosures" for financial instruments that are measured in the consolidated balance sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted price (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 30 June 2010 and 31 December 2009, the Group did not have any assets or liabilities that were measured at fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements used in preparing the Financial Information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below:

4.1 PRC Enterprise Income Tax and Deferred Taxation

The Group's subsidiary that operates in the PRC is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

4.2 Estimation on Impairment of Receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

4.3 Write-downs of Inventories to Net Realizable Value

The Group writes down inventories to net realizable value based on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realized. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and write-downs of inventories in the years/periods in which such estimate has been changed.

4.4 Recognition of Share-based Compensation Expenses

As mentioned in Note 28, the Group has granted share options to its employees and directors under the Post-IPO Share Option Scheme. The directors have used the Trinomial Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Trinomial Model (Note 28).

The fair value of options granted during the six months ended 30 June 2010 determined using the Trinomial Model was approximately HKD45,000,000.

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") to determine the amount of share-based compensation expenses to be charged into the consolidated income statement. As at 30 June 2010, the Expected Retention Rate was assessed to be 88%.

If the Expected Retention Rate had been increased/decreased by 5 percentage points to 93%/83%, the amount of share-based compensation expenses charged to the consolidated income statement would be increased/decreased approximately by HKD75,000.

5 SEGMENT REPORTING

The chief operating decision-maker has been identified as the senior executive management of the Company. The chief operating decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The senior executive management team considers that the business of the operating performance of Group is assessed by its different product lines, including power management, transmission management, wavelength management, signal conditioning and monitoring management and others. They have been adopted for the determination of the operating segments for financial reporting purposes. The reportable operating segments derive their revenue from manufacturing and sales of the respective products.

Other operating segments mainly include the manufacture and sales of other optical and fiber products, which are not included within the reportable operating segments, as they are not included in the reports provided to the management. The results of these operations are included in the "All other segments" column.

The senior executive management team assesses the performance of the operating segments based on a measure of gross profit, which is determined by using the accounting policies which are the same as disclosed in Note 2. The Group does not allocate operating costs or assets to its segments, as its chief operating decision-maker does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of profit for each reportable segment and total assets.

5 SEGMENT REPORTING (Continued)

(a) The segment information provided to the senior executive management for the reportable segments for the six months ended 30 June 2009 is as follows:

	Power management (unaudited) *HKD'000*	Transmission management (unaudited) *HKD'000*	Wavelength management (unaudited) *HKD'000*	Signal conditioning and monitoring management (unaudited) *HKD'000*	All other segments (unaudited) *HKD'000*	Unallocated (unaudited) *HKD'000*	Total (unaudited) *HKD'000*
Total revenue (all from external customers)	44,809	43,635	28,251	2,568	5,962	–	125,225
Cost of sales	(29,100)	(20,645)	(15,748)	(1,550)	(6,725)	–	(73,768)
Gross profit	15,709	22,990	12,503	1,018	(763)	–	51,457
Other gains – net						1,706	1,706
Selling and marketing costs						(6,742)	(6,742)
Research and development expenses						(7,439)	(7,439)
Administrative expenses						(13,567)	(13,567)
Operating profit						25,415	25,415
Finance income – net						333	333
Profit before income tax						25,748	25,748
Income tax expenses						(2,426)	(2,426)
Profit for the year						23,322	23,322

5 SEGMENT REPORTING (Continued)

(b) The segment information provided to the senior executive management for the reportable segments for the six months ended 30 June 2010 is as follows:

	Power management *HKD'000*	Transmission management *HKD'000*	Wavelength management *HKD'000*	Signal conditioning and monitoring management *HKD'000*	All other segments *HKD'000*	Unallocated *HKD'000*	Total *HKD'000*
Total revenue (all from external customers)	**130,453**	**95,561**	**58,719**	**5,372**	**6,645**	**–**	**296,750**
Cost of sales	**(66,395)**	**(45,212)**	**(26,547)**	**(2,869)**	**(4,948)**	**–**	**(145,971)**
Gross profit	**64,058**	**50,349**	**32,172**	**2,503**	**1,697**	**–**	**150,779**
Other gains – net						**416**	**416**
Selling and marketing costs						**(15,316)**	**(15,316)**
Research and development expenses						**(14,201)**	**(14,201)**
Administrative expenses						**(24,405)**	**(24,405)**
Operating profit						**97,273**	**97,273**
Finance costs – net						**(4,325)**	**(4,325)**
Profit before income tax						**92,948**	**92,948**
Income tax expenses						**(11,307)**	**(11,307)**
Profit for the period						**81,641**	**81,641**

5 SEGMENT REPORTING (Continued)

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

	For the six months ended 30 June	
	2010	2009
		(unaudited)
	HKD'000	*HKD'000*
The PRC	**137,860**	61,091
Europe	**84,143**	19,946
North America	**22,953**	17,867
Other Asia countries excluding the PRC	**51,794**	26,321
	296,750	125,225

(d) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2010 and 31 December 2009 are as follows:

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
The PRC	**89,450**	68,884
Hong Kong	**202**	165
	89,652	69,049

(e) During the six months ended 30 June 2010 and 2009, revenue derived from sales made to two single external customers amounted to 10% or more of the Group's total revenue, respectively. These revenues are attributable to the wavelength management, transmission management, power management and signal conditioning and monitoring management segments.

6 LAND USE RIGHT

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

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Outside of Hong Kong – Lease of 50 years	**28,357**	28,396

	Land use right
	HKD'000
Six months ended 30 June 2009 (unaudited)	
Opening net book amount	28,949
Amortization charge	(298)
Exchange difference	13
Closing net book amount	28,664
Six months ended 30 June 2010	
Opening net book amount	**28,396**
Amortization charge	**(301)**
Exchange difference	**262**
Closing net book amount	**28,357**

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 30 June 2010 was 46 years.

7 PROPERTY, PLANT AND EQUIPMENT

	Machinery	Motor vehicles	Furniture, fitting & equipment	Construction in progress	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
At 1 January 2009					
Cost	23,666	814	83,023	469	107,972
Accumulated depreciation	(15,345)	(527)	(53,937)	–	(69,809)
Net book amount	8,321	287	29,086	469	38,163
Six months ended 30 June 2009 (unaudited)					
Opening net book amount	8,321	287	29,086	469	38,163
Additions	–	–	1,612	126	1,738
Disposal	–	–	(1)	–	(1)
Transfers	–	–	33	(33)	–
Depreciation	(1,100)	(35)	(3,191)	–	(4,326)
Exchange difference	3	–	12	1	16
Closing net book amount	7,224	252	27,551	563	35,590
At 30 June 2009 (unaudited)					
Cost	23,677	815	84,690	563	109,745
Accumulated depreciation	(16,453)	(563)	(57,139)	–	(74,155)
Net book amount	7,224	252	27,551	563	35,590

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Machinery *HKD'000*	Motor vehicles *HKD'000*	Furniture, fitting & equipment *HKD'000*	Construction in progress *HKD'000*	Total *HKD'000*
At 1 January 2010					
Cost	**23,704**	**815**	**93,311**	**1,602**	**119,432**
Accumulated depreciation	**(17,533)**	**(600)**	**(61,142)**	**–**	**(79,275)**
Net book amount	**6,171**	**215**	**32,169**	**1,602**	**40,157**
Six months ended 30 June 2010					
Opening net book amount	**6,171**	**215**	**32,169**	**1,602**	**40,157**
Additions	**–**	**522**	**24,509**	**459**	**25,490**
Transfers	**–**	**–**	**509**	**(509)**	**–**
Depreciation	**(1,056)**	**(48)**	**(4,568)**	**–**	**(5,672)**
Exchange difference	**50**	**4**	**428**	**15**	**497**
Closing net book amount	**5,165**	**693**	**53,047**	**1,567**	**60,472**
At 30 June 2010					
Cost	**23,924**	**1,348**	**119,353**	**1,567**	**146,192**
Accumulated depreciation	**(18,759)**	**(655)**	**(66,306)**	**–**	**(85,720)**
Net book amount	**5,165**	**693**	**53,047**	**1,567**	**60,472**

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

	For the six months ended 30 June	
	2010 ***HKD'000***	2009 *HKD'000* (unaudited)
Cost of sales	**4,368**	3,239
Selling and marketing costs	**6**	7
Administrative expenses	**759**	633
Research and development	**539**	447
	5,672	4,326

(b) For the six months ended 30 June 2010 and 2009, lease rentals amounting to HKD3,480,000 and HKD2,549,000, respectively, for leases of office buildings and plant of the Group, had been included in the consolidated income statement.

8 INTANGIBLE ASSETS

	Patent *HKD'000*	Computer software *HKD'000*	Total *HKD'000*
At 1 January 2009			
Cost	210	527	737
Accumulated amortization	(31)	(119)	(150)
Net book amount	179	408	587
Six months ended 30 June 2009 (unaudited)			
Opening net book amount	179	408	587
Additions	–	–	–
Amortization charge	–	(53)	(53)
Exchange difference	–	–	–
Closing net book amount	179	355	534
At 30 June 2009 (unaudited)			
Cost	210	528	738
Accumulated amortization	(31)	(173)	(204)
Net book amount	179	355	534
At 1 January 2010			
Cost	**210**	**572**	**782**
Accumulated amortization	**(61)**	**(225)**	**(286)**
Net book amount	**149**	**347**	**496**
Six months ended 30 June 2010			
Opening net book amount	**149**	**347**	**496**
Additions	**–**	**394**	**394**
Amortization charge	**–**	**(74)**	**(74)**
Exchange difference	**1**	**6**	**7**
Closing net book amount	**150**	**673**	**823**
At 30 June 2010			
Cost	**212**	**974**	**1,186**
Accumulated amortization	**(62)**	**(301)**	**(363)**
Net book amount	**150**	**673**	**823**

The amortization expenses had all been included in administrative expenses in the consolidated income statement.

9 INVENTORIES

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Cost:		
Raw materials	**35,924**	26,748
Work-in-progress	**25,158**	20,246
Finished goods	**17,934**	11,776
Less: provision for write-down of inventories to net realizable values	**(488)**	(2,477)
	78,528	56,293

For the six months ended 30 June 2010, the cost of inventories recognized as cost of sales, selling and marketing costs, research and development expenses, and administrative expenses amounted to HKD119,643,000 (six months ended 30 June 2009: HKD57,444,000).

For the six months ended 30 June 2010, the Group had written back impairment of approximately HKD1,998,000 for inventories (six months ended 30 June 2009: nil). These amounts had been included in cost of sales in the consolidated income statement.

10 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the items tabulated below:

	Loans and receivables
	HKD'000
Assets	
As at 30 June 2010:	
Trade and other receivables excluding prepayments *(Note 11)*	**212,469**
Cash and cash equivalents *(Note 12)*	**547,309**
Total	**759,778**
As at 31 December 2009:	
Trade and other receivables excluding prepayments *(Note 11)*	168,171
Cash and cash equivalents *(Note 12)*	26,544
Total	194,715

10 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Other financial liabilities *HKD'000*
Liabilities	
As at 30 June 2010:	
Trade and other payables excluding statutory liabilities *(Note 16)*	**123,414**
As at 31 December 2009:	
Trade and other payables excluding statutory liabilities *(Note 16)*	121,713

11 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2010 ***HKD'000***	31 December 2009 *HKD'000*
Trade receivables (a)	**190,765**	132,249
Less: provision for impairment of receivables (b)	**(2,079)**	(1,622)
Trade receivables – net	**188,686**	130,627
Amounts due from related parties *(Note 27(d))*	**–**	997
Bills receivables (c)	**16,374**	35,207
Prepayments	**5,382**	1,337
Other receivables	**7,409**	1,340
	217,851	169,508

As at 30 June 2010 and 31 December 2009, the fair value of trade and other receivables of the Group approximated their carrying amounts.

11 TRADE AND OTHER RECEIVABLES (Continued)

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

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
RMB	**89,445**	89,030
USD	**121,972**	75,883
HKD	**5,814**	1,393
JPY	**620**	3,202
	217,851	169,508

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

Trade receivables	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Within 30 days	**64,956**	50,550
30 to 60 days	**49,178**	36,258
60 to 90 days	**45,775**	23,681
90 to 180 days	**26,136**	17,821
180 to 365 days	**2,213**	1,163
Over 365 days	**2,507**	2,776
	190,765	132,249

11 TRADE AND OTHER RECEIVABLES (Continued)

(a) (Continued)

As at 30 June 2010 and 31 December 2009, trade receivables of HKD109,316,000 and HKD37,641,000 were past due but not impaired. These relate to a number of independent customers that have good trading records with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The aging analysis of these trade receivables is as follows:

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Past due 1 to 90 days	**105,141**	33,043
Past due 91 to 180 days	**2,855**	2,461
Past due 181 to 365 days	**1,236**	1,554
Past due over 365 days	**84**	583
	109,316	37,641

As at 30 June 2010 and 31 December 2009, trade receivables of HKD2,079,000 and HKD1,622,000 were impaired. All these balances had been fully provided for impairment losses. The aging of these trade receivables is as follows:

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Past due over 365 days	**2,079**	1,622
	2,079	1,622

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

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Opening balance	**1,622**	1,671
Provision for/(write back of) impairment	**440**	(35)
Exchange difference	**17**	1
Closing balance	**2,079**	1,637

11 TRADE AND OTHER RECEIVABLES (Continued)

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

Bills receivables	**As at**	
	30 June 2010 *HKD'000*	31 December 2009 *HKD'000*
Within 30 days	**7,134**	10,552
31 to 90 days	**1,369**	11,468
91 to 180 days	**7,871**	13,187
	16,374	35,207

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

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

12 CASH AND CASH EQUIVALENTS

	As at	
	30 June 2010 *HKD'000*	31 December 2009 *HKD'000*
Cash and cash equivalents	**547,309**	26,544

Cash at bank and in hand are denominated in the following currencies:

	As at	
	30 June 2010 *HKD'000*	31 December 2009 *HKD'000*
RMB	**9,110**	11,335
USD	**42,594**	15,107
HKD	**495,605**	102
	547,309	26,544

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.

13 SHARE CAPITAL

The Company:

	Authorized share capital – ordinary shares of par value of HKD0.01 each	
	Number of shares	**HKD**
Upon incorporation of the Company on 12 November 2009 (a)	39,000,000	390,000
Increase in authorized share capital on 9 April 2010 (b)	9,961,000,000	99,610,000
As at 30 June 2010	**10,000,000,000**	**100,000,000**

	Issued and fully paid up – ordinary shares of par value of HKD0.01 each	
	Number of shares	**HKD**
Issued on 12 November 2009 (a)	1	–
Issued on 22 February 2010 (c)	9,999	100
Issue of shares upon the IPO (d)	193,280,000	1,932,800
Capitalization of share premium (e)	579,805,240	5,798,052
As at 30 June 2010	**773,095,240**	**7,730,952**

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

(b) On 9 April 2010, the shareholders of the Company passed a resolution that the authorized share capital of the Company was to increase from HKD390,000 to HKD100,000,000, by the creation of 9,961,000,000 additional ordinary shares.

(c) On 22 February 2010, the Company issued additional 9,999 shares of HKD0.01 each to O-Net Cayman and all the said 10,000 shares were credited as fully paid up by the Company in consideration of the transfer by O-Net Cayman of all its shareholding interests in O-Net BVI to the Company.

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

13 SHARE CAPITAL (Continued)

(e) Immediately after the completion of the New Issue, share premium from the IPO of HKD5,798,052 was capitalized and applied in paying up in full at par 579,805,240 ordinary shares issued to the shareholders whose names appeared on the Company's register of members as at the close of business on 13 April 2010.

The Group:

	As at	
	30 June 2010 *HKD'000*	31 December 2009 *HKD'000*
Share capital	**7,731**	–

14 OTHER RESERVES

	Share-based compensation *HKD'000*	Merger reserve *HKD'000*	Currency translation reserve *HKD'000*	Total *HKD'000*
Balance at 1 January 2009	17,980	(90,816)	9,019	(63,817)
Share option scheme – value of services *(Note 28)*	1,679	–	–	1,679
Currency translation differences	–	–	(1,796)	(1,796)
Balance at 30 June 2009 (unaudited)	19,659	(90,816)	7,223	(63,934)
Balance at 1 January 2010	**21,636**	**(85,421)**	**8,626**	**(55,159)**
Share option scheme – value of services *(Note 28)*	**2,693**	**–**	**–**	**2,693**
Currency translation differences	**–**	**–**	**3,197**	**3,197**
Balance at 30 June 2010	**24,329**	**(85,421)**	**11,823**	**(49,269)**

The share capital and share premium in the consolidated financial statements as at 30 June 2010 and 31 December 2009 reflect the share capital and share premium of the Company as if it had always been issued. The merger reserve as at 30 June 2010 and 31 December 2009 represents the difference between the capital reserve of the consolidated financial statements of the Listing Business and the share capital and share premium of the Company.

15 Retained earnings/(accumulated deficits)

	Total
	HKD'000
At 1 January 2009	(46,294)
Profit for the period	23,322
Balance at 30 June 2009 (unaudited)	(22,972)
Balance at 1 January 2010	**32,866**
Profit for the period	**81,641**
Balance at 30 June 2010	**114,507**

16 TRADE AND OTHER PAYABLES

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Trade payables (a)	**101,872**	68,890
Amount due to related parties *(Note 28(d))*	**–**	33,951
Accrued expenses	**11,581**	10,746
Payroll payable	**8,478**	6,604
Other payables	**1,483**	1,522
Advances from customers	**235**	177
Other taxes payable	**2,542**	1,150
	126,191	123,040

As at 30 June 2010 and 31 December 2009, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities.

16 TRADE AND OTHER PAYABLES (Continued)

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

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Within 30 days	**42,358**	27,548
Over 30 days and within 60 days	**21,365**	12,183
Over 60 days and within 180 days	**33,236**	23,788
Over 180 days and within 365 days	**1,794**	2,298
Over 365 days	**3,119**	3,073
	101,872	68,890

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

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
RMB	**94,136**	99,077
USD	**31,075**	16,664
HKD	**980**	7,282
Euro	**–**	17
	126,191	123,040

17 DEFERRED INCOME TAX

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

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Deferred income tax assets:		
– to be recovered within 12 months	**347**	503
– to be recovered after more than 12 months	**385**	421
	732	924
Deferred income tax liabilities:	**–**	–

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

	For the six months ended 30 June	
	2010	2009
	HKD'000	*HKD'000*
Deferred tax assets:		
Beginning of the period	**924**	737
Charged to the consolidated income statement *(Note 22)*	**(199)**	5
Exchange difference	**7**	1
End of the period	**732**	743

17 DEFERRED INCOME TAX (Continued)

Movement in deferred tax assets is as follows:

	Accelerated accounting amortization of fixed assets and intangible assets	Provision for impairment of receivables and write–down of inventories	Tax losses	Others	Total
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	*HKD'000*
At 1 January 2010	**476**	**437**	**–**	**11**	**924**
Credited/(charged) to the consolidated income statement	**(52)**	**(149)**	**–**	**2**	**(199)**
Exchange difference	**2**	**5**	**–**	**–**	**7**
At 30 June 2010	**426**	**293**	**–**	**13**	**732**
At 1 January 2009	337	333	56	11	737
Credited/(charged) to the consolidated income statement	64	(3)	(56)	–	5
Exchange difference	1	–	–	–	1
At 30 June 2009 (unaudited)	402	330	–	11	743

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related benefit through the future taxable profits is probable.

There were no significant unrecognized deferred tax assets as at 30 June 2010 and 31 December 2009.

As at 30 June 2010, the withholding tax associated with retained profits of the PRC subsidiary of approximately HKD78,000,000 had not been provided for. The Directors of the Company resolved not to distribute these profits.

No deferred income tax assets and liabilities had been offset during the six months ended 30 June 2010 and 2009.

18 REVENUE AND OTHER GAINS

Revenue consists of sales of optic networking subcomponents, components, modules and subsystem. Revenue and other gains recognized during the six months ended 30 June 2010 and 2009 are as follows:

	For the six months ended 30 June	
	2010	2009
		(unaudited)
	HKD'000	*HKD'000*
Revenue		
Sales of goods	**296,750**	125,225
Other gains – net		
Government grants (a)	**57**	1,645
Gain arising from sales of scrapped or surplus raw materials	**341**	25
Gain on disposal of property, plant and equipment, net	**–**	9
Others	**18**	27
	416	1,706
Total	**297,166**	126,931

(a) The government grants are mainly grants from Shenzhen Science and Technology Bureau in Shenzhen for the financing of research and development expenditures incurred by O-Net Shenzhen.

19 EXPENSES BY NATURE

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

	For the six months ended 30 June	
	2010	2009
		(unaudited)
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**48,380**	26,772
Share option expenses		
– For options granted to sales distributors	**363**	475
– For options granted to directors and employees *(Note 20)*	**2,330**	1,204
Raw materials consumed	**130,713**	60,345
Changes in inventories of finished goods and work in progress *(Note 9)*	**(11,070)**	(2,901)
Depreciation *(Note 7)*	**5,672**	4,326
Amortisation *(Notes 6, 8)*	**375**	351
Provision for/(write back of) impairment provision for doubtful receivables *(Note 11)*	**440**	(35)
Write back of inventories provision *(Note 9)*	**(1,998)**	–
Sales commissions	**9,171**	2,656
Utilities charges	**5,167**	3,064
Operating lease rental *(Note 7)*	**3,480**	2,549
Freight	**1,992**	795
Auditors' remuneration	**1,936**	82
Travelling expenses	**1,050**	525
Advertising costs	**407**	410
Others	**1,485**	898
	199,893	101,516

20 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS

	For the six months ended 30 June	
	2010	2009
		(unaudited)
	HKD'000	*HKD'000*
Salaries, bonus and other welfares	**45,151**	24,449
Pension – defined contribution plans (a)	**3,229**	2,323
Share options granted to directors and employees *(Note 19)*	**2,330**	1,204
	50,710	27,976

20 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(a) The Group participates in defined contribution retirement benefit plans organized by the local government in the PRC. For the six months ended 30 June 2010 and 2009, the Group is 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 six months ended 30 June 2009 is set out below:

Name of director	Fees (unaudited) *HKD'000*	Salary (unaudited) *HKD'000*	Share options granted (unaudited) *HKD'000*	Other benefits and allowance (unaudited) *HKD'000*	Pension scheme contribution (unaudited) *HKD'000*	Total (unaudited) *HKD'000*
Mr. Na Qinglin	23	443	–	74	12	552
Mr. Xue Yahong	23	368	33	39	7	470
Mr. Chen Zhujiang*	23	–	–	–	–	23
Mr. Huang Bin*	23	–	539	–	–	562
Mr. Tan Man Chi*	23	–	–	–	–	23
	115	811	572	113	19	1,630

The remuneration of each director of the Company for the six months ended 30 June 2010 is set out below:

Name of director	**Fees** ***HKD'000***	**Salary** ***HKD'000***	**Share options granted** ***HKD'000***	**Other benefits and allowance** ***HKD'000***	**Pension scheme contribution** ***HKD'000***	**Total** ***HKD'000***
Mr. Na Qinglin	**219**	**386**	**314**	**258**	**12**	**1,189**
Mr. Xue Yahong	**68**	**367**	**27**	**68**	**18**	**548**
Mr. Chen Zhujiang*	**26**	**–**	**–**	**–**	**–**	**26**
Mr. Huang Bin*	**26**	**–**	**606**	**–**	**–**	**632**
Mr. Tan Man Chi*	**26**	**–**	**–**	**–**	**–**	**26**
	365	**753**	**947**	**326**	**30**	**2,421**

20 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(c) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include 3 and 3 directors for the six months ended 30 June 2010 and 2009 respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 and 2 individuals are as follows:

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Basic salaries	**868**	537
Pension costs	**12**	19
Bonus	**301**	42
Share option compensation	**186**	522
	1,367	1,120

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

	For the six months ended 30 June	
	2010	2009 (unaudited)
Emolument bands		
Nil – $1,000,000	**4**	5
$1,000,001 – $1,500,000	**1**	–
$1,500,001 – $2,000,000	**–**	–
	5	5

No emoluments had been paid to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office during the six months ended 30 June 2010 and 2009.

21 FINANCE COSTS/(INCOME) – NET

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Finance income		
– Interest income derived from bank deposits	**(33)**	(25)
– Exchange gain	**–**	(673)
Finance costs		
– Interest expenses on bank borrowings	**–**	365
– Exchange loss	**4,358**	–
Finance costs/(income) – net	**4,325**	(333)

22 INCOME TAX EXPENSES

	For the six months ended 30 June	
	2010	2009 (Unaudited)
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax (b)	**–**	92
– PRC corporate income tax (c)	**11,108**	2,339
Total current income tax	**11,108**	2,431
Deferred income tax		
– Origination and reversal of temporary differences	**199**	(61)
– tax losses carried forward	**–**	56
Total deferred income tax *(Note 17)*	**199**	(5)
Income tax expenses	**11,307**	2,426

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

(b) ***Hong Kong Profits Tax***

The applicable tax rate for Hong Kong profits is 16.5%. No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the six months ended 30 June 2010.

22 INCOME TAX EXPENSES (Continued)

(c) PRC Enterprise Income Tax (the "PRC EIT")

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

O-Net Shenzhen was established in the Shenzhen Special Economic Zone. It was entitled to exemption from the PRC EIT for the two years commencing from their respective first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from the enacted EIT rate for the next three years (the "5-Year Tax Concession").

Pursuant to the PRC EIT Law passed by the Tenth National People's Congress on 16 March 2007 (the "New PRC EIT Law"), the new EIT for domestic and foreign enterprises is unified at 25%, which is effective from 1 January 2008 onwards. The New PRC EIT Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. On 26 December 2007, the State Council issued the "Circular to implement of the Transitional Preferential Policies for the Enterprise Income Tax". Pursuant to this Circular, the transitional income tax rates of companies established in Shenzhen Special Economic Zone before 31 March 2007 should be 18%, 20%, 22%, 24% and 25%, respectively in 2008, 2009, 2010, 2011 and 2012.

After promulgation of the New PRC EIT Law, the "5-Year Tax Concession" enjoyed by O-Net Shenzhen could be continued to be applied. As the first profit making year of O-Net Shenzhen after offsetting of cumulative carry-forward losses is 2006, the enacted tax rate applicable to O-Net Shenzhen is 11% (being 50% of the enacted EIT rate for 2010).

In addition, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It would be entitled to a concessionary EIT tax rate of 15% for a period of 3 years from 2008 to 2010. Given the fact that the applicable EIT tax rate under the 5-Year Tax Concession is more preferential and beneficial to O-Net Shenzhen, the enacted tax rate applicable to O-Net Shenzhen for 2010 was determined based on the 5-Year Tax Concession, as described in the preceding paragraph.

22 INCOME TAX EXPENSES (Continued)

(c) PRC Enterprise Income Tax (the "PRC EIT") (Continued)

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:

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Profit before income tax	**92,948**	25,748
Tax calculated at statutory tax rates applicable to entities comprising the Group	**20,572**	5,118
Tax effect of:		
Preferential tax concession	**(9,950)**	(2,771)
Expenses not deductible for tax purposes	**685**	79
Income tax expenses	**11,307**	2,426

23 DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2010.

24 EARNINGS PER SHARE

(a) Basic

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

	For the six months ended 30 June	
	2010	2009 (unaudited)
Profit attributable to equity holders of the Company for the six months (HKD'000)	**81,641**	23,322
Weighted average number of ordinary shares in issue (thousands)	**647,089**	579,815
Basic EPS (HKD per share)	**0.1262**	0.0402

24 EARNINGS PER SHARE (Continued)

(a) Basic (Continued)

The weighted average number of ordinary shares in issue during the six months ended 30 June 2010 used in the basic earnings per share calculation is determined on the assumption that the 579,805,000 shares issued upon the capitalization issue and 10,000 shares issued under the Reorganization (Note 1) had been in issue since the beginning of the periods presented (1 January 2009) (for the six months ended 30 June 2009: same).

(b) Diluted

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

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

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

	For the six months ended 30 June	
	2010	2009 (unaudited)
Profit attributable to equity holders of the Company for the six months (HKD'000)	**81,641**	23,322
Weighted average number of ordinary shares in issue (thousands shares)	**647,089**	579,815
Adjustments for share options (thousands shares)	**596**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**647,685**	579,815
Diluted EPS (HKD per share)	**0.1261**	0.0402

25 CASH GENERATED FROM OPERATIONS

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

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Profit before income tax	**92,948**	25,748
Adjustments for:		
Depreciation and amortization *(Notes 6, 7, 8)*	**6,047**	4,677
Write-back of inventories *(Note 9)*	**(1,998)**	–
Provision for/(write back of) impairment provision for doubtful receivables *(Note 11)*	**440**	(35)
Loss/(gain) on disposal of property, plant and equipment *(note (a))*	**–**	(9)
Interest income *(Note 21)*	**(33)**	(25)
Interest expenses *(Note 21)*	**–**	365
Share options granted to sales distributors, directors and employees *(Note 19)*	**2,693**	1,679
Changes in working capital:		
– Inventories	**(19,579)**	(6,260)
– Trade and other receivables	**(81,105)**	(29,278)
– Trade and other payables	**39,250**	10,556
Cash generated from operating activities	**38,663**	7,418

Non-cash Transactions

During the six months ended 30 June 2010, the Group settled its outstanding balance of approximately HKD33,851,000 (Note 27(d)) due to Shenzhen Kaifa Technology Co., Ltd by using endorsed bank acceptance notes received by the Group from its suppliers.

26 COMMITMENTS

Operating Leases Commitments

The Group leases certain of its office premises, plant and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Not later than one year	**4,039**	3,580
Later than one year and not later than five years	**150**	–
	4,189	3,580

Capital Commitments

	As at	
	30 June 2010	31 December 2009
	HKD'000	*HKD'000*
Capital expenditure contracted for but not provided	**1,517**	–

As at 30 June 2010, the directors of Company had also authorized a capital expenditure of approximately HKD200,000,000 for the construction of a new factory facility.

27 RELATED PARTY TRANSACTIONS

Certain names of the companies referred to above in this note represent management's translation of the Chinese names of these companies as no English names have been registered or available for these companies.

(a) Name and Relationship with Related Parties

Name	Relationship
Kaifa HK	A shareholder of the Company
Mandarin IT Fund I	An ultimate shareholder of the Company
Shenzhen Kaifa Technology Co., Ltd	Holding company of Kaifa HK
O-Net Crystal Technology (Shenzhen) Limited	Controlled by O-Net Cayman
Butterfly Technology (Hong Kong) Ltd.	Controlled by key management personnel of the Company
Mandarin VP (HK) Ltd.	Controlled by key management personnel of the Company

27 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with Related Parties

The Group had following significant transactions with related parties during the six months ended 30 June 2010 and 2009:

Continuing Transactions

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Acceptance of tenancy agreement		
Mandarin VP (HK) Ltd.	**220**	–

Non-recurring Transactions

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Purchases of materials		
O-Net Crystal Technology (Shenzhen) Limited	**–**	1,009

In the opinion of the Directors, 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 head of Sales Department and Research and Development Department of O-Net Shenzhen. The compensation paid or payable to key management for the employee services is shown as below:

	For the six months ended 30 June	
	2010	2009 (unaudited)
	HKD'000	*HKD'000*
Salaries, bonus and other welfares	**2,899**	1,940
Pension – defined contribution plans	**49**	38
Share option expenses	**1,252**	1,179
	4,200	3,157

27 RELATED PARTY TRANSACTIONS (Continued)

(d) Balances with Related Parties

As at 30 June 2010 and 31 December 2009, the Group had the following balances with related parties:

	As at	
	30 June 2010 *HKD'000*	31 December 2009 *HKD'000*
Other receivables *(i)*		
Butterfly Technology (Hong Kong) Ltd.	–	936
Mandarin VP (HK) Ltd.	–	1
Shenzhen Kaifa Technology Co., Ltd (g)	–	60
	–	997

	As at	
	30 June 2010 *HKD'000*	31 December 2009 *HKD'000*
Other payables		
Shenzhen Kaifa Technology Co., Ltd *(ii)*	–	33,951

i: All these current account balances were free of interest and security. They had no fixed repayment dates and were repayable on demand.

ii: The amount is interest free and unsecured. It is repayable on demand. During the six months ended 30 June 2010, the Group settled the outstanding balance by using endorsed bank acceptance notes amounting to approximately HKD33,851,000(Note 25). The remaining balance was paid by cash.

28 SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

Pursuant to a trust deed (the "Old Trust Deed") entered into between O-Net Cayman and O-Net Trust in November 2000, O-Net Trust was established by O-Net Cayman for the purpose of assisting eligible participants, including employees, directors or officers of O-Net Cayman or any of its subsidiaries or its consultants and distributors (collectively "Grantees"), to acquire shares and other securities of O-Net Cayman (the "Old Option Agreements").

Immediately prior to the Reorganization as mentioned in Note 1, O-Net Trust directly held 9.41% of the issued share capital of O-Net Cayman. As part of the Reorganization, O-Net Holdings (BVI) Limited ("O-Net Holdings") was set up in BVI on 13 January 2010 and the Shareholders Group became the shareholders of O-Net Holdings. Immediately after completion of the Reorganization, O-Net Trust held 2,728,359 shares in O-Net Holdings, representing 18.48% interest in O-Net Holdings, and would indirectly hold 9.41% of the issued share capital of the Company.

On 9 April 2010, O-Net Holdings, O-Net Cayman and O-Net Trust entered into a supplemental trust deed to the effect that O-Net Holdings became a party to the Share Option Scheme as if O-Net Holdings was named in the Old Trust Deed as the settlor and the trust property in O-Net Trust would become the shares held by O-Net Trust in O-Net Holdings. On the same day, O-Net Cayman, O-Net Trust and each Grantee entered into supplemental agreements (the "New Option Agreements"), whereby each Grantee agreed to receive options to acquire shares in O-Net Holdings, which were determined by reference to the number of the then-existing options each Grantee had received under the Old Option Agreements at a ratio of 1:1 (the "Share Option Migration"). The Share Option Migration has been completed on 9 April 2010.

Under the Pre-IPO Share Option Scheme, three types of share options are granted to directors, employees and sales distributors:

Type A: share options granted to directors and employees with vesting periods over 1 to 3 years. The exercise of the share options is not dependent on an IPO of the Company. The exercise price is zero.

Type B: share options granted to directors and employees with graded vesting period over 1 to 3 years. The exercise of the share options is dependent on an IPO of the Company. The exercise price is zero.

28 SHARE OPTION SCHEMES (Continued)

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

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

The details of the Pre-IPO Share Option Scheme, taking into account the provisions of the New Option Agreements and the effect of the Share Option Migration, during the six months ended 30 June 2010 and 2009 are as below:

(i) Movement of number of share options granted under the Pre-IPO Share Option Scheme outstanding during the six months ended 30 June 2010 and 2009 are as follows:

	For the six months ended 30 June	
	2010	2009
Beginning of the period	**2,556,439**	2,601,241
Granted	**–**	–
Exercised	**(569,854)**	–
Expired	**–**	(74,718)
Forfeited	**(2,802)**	(1,868)
End of the period	**1,983,783**	2,524,655

As at 30 June 2010 and 31 December 2009, 518,792 and 679,089 share options granted under the Pre-IPO Share Option Scheme were exercisable, respectively.

28 SHARE OPTION SCHEMES (Continued)

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

(ii) Share options granted under the Pre-IPO Share Option Scheme outstanding as at 30 June 2010 and 31 December 2009 were as follows:

Number of share options granted to	As at 30 June 2010	As at 31 December 2009	Expiry date
Directors	**326,889**	326,889	September 2015
Employees	**1,656,894**	1,659,696	April 2011-October 2016
Sales distributors	**–**	569,854	March-June 2010
	1,983,783	2,556,439	

As the exercise price of the share options is zero, fair values of the options are determined with reference to the fair value of the Listing Business, which are ascertained by the directors of the Company by using the discounted cash flows method, after applying an appropriate marketability discount. The total expenses for share options granted under the Pre-IPO Share Option Scheme are recognized in the consolidated income statement of the Group in accordance with HK(IFRIC) 11 "IFRS 2 – Group and treasury share transactions".

(b) Post-IPO Share Option Scheme

On 2 June 2010, the Company has offered to grant share options to certain employees and directors under the Post-IPO Share Option Scheme adopted by the Group on 9 April 2010.

The exercise price was determined by the directors of the Company at the higher of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price per share as stated in the Stock Exchange'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. The exercise price so determined was HKD3.128 per share option.

As the closing price of the share on the date of grant (2 June 2010) was HKD3.10 per share, the exercise price is determined to be HKD3.128 per share option, which was the higher of HKD3.128 and HKD3.10.

The total number of shares granted was 30,648,000 options (each option shall entitle the holder of the option to subscribe for one ordinary share of the Company). Out of the options granted, 24,318,000, 1,390,000 and 4,940,000 of the options were classified as Tranche 1, 2 & 3 respectively.

Details for the three tranches are as follows:

28 SHARE OPTION SCHEMES (Continued)

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

Tranche 1 (for certain directors and employees): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years.

Tranche 2 (for certain employees): vesting period commences at the end of the second anniversary of the grant date, equally over a period of 4 years.

Tranche 3 (for one director and certain employees): vesting period commences at the end of the third anniversary of the grant date, equally over a period of 3 years.

All Options shall lapse until 8 April 2020.

The details of the Post-IPO Share Options Scheme, during the six months ended 30 June 2010 are as below:

(i) Movement of number of share options outstanding during the six months ended 30 June 2010 is as follows:

	As at 30 June 2010
Beginning of the period	–
Granted	**30,648,000**
End of the period	**30,648,000**

As at 30 June 2010, no options granted under the Post-IPO Share Option Scheme were exercisable.

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

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

28 SHARE OPTION SCHEMES (Continued)

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

(iii) Share options granted under the Post-IPO Share Option Scheme outstanding as at 30 June 2010 were as follows:

Number of share options granted to	As at 30 June 2010	Expiry date
Directors	**8,000,000**	8 April 2020
Employees	**22,648,000**	8 April 2020
	30,648,000	

Refer to Note 19 for the total expense recognized in the consolidated income statement for share options granted.

29 PARTICULARS OF SUBSIDIARIES

As at 30 June 2010, the Company has direct or indirect interest in the following subsidiaries:

Name	Date of incorporation	Place of incorporation	Share capital or paid-in capital	Interest held directly	Interest held indirectly	Principal activities
O-Net BVI	6 November 2006	BVI	United States dollars ("USD") 28,991	100%	–	Investment holding
O-Net Shenzhen	23 October 2000	Shenzhen, the PRC	HKD85,000,000	–	100%	Design, manufacturing and sale of optical networking products
O-Net Hong Kong	25 September 2000	Hong Kong	HKD1,000,000	–	100%	Sales of optical networking products

All the above subsidiaries are limited liability companies.

30 Comparative figures

The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows and the related disclosure notes for the six months ended 30 June 2009 of the Group were not audited but were subject to review under Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".