ANNUAL REPORT 2010

INNOVATION OPTICAL INTELLIGENT SOLUTIONS

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)

INNOVATION
OPTICAL
INTELLIGENT
SOLUTIONS

Contents

Corporate Information

Company Name

O-Net Communications (Group) Limited

Financial Year End

31 December

Place of Incorporation

Cayman Islands

Registered Office

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

Headquarter and Principal Place of Business in the PRC

10-1 South
Maqueling Industrial Park
Nanshan District
Shenzhen 518057
China
Postal Code: 518057

Principal Place of Business in Hong Kong

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

Company's website

www.o-netcom.com

Board of Directors

Executive 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)*
Mr. Bai Xiaoshu
Mr. Deng Xinping

Nomination Committee

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

Remuneration Committee

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

Authorized Representatives

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

Alternate Authorized Representatives

Mr. Xue Yahong (alternate to Mr. Na Qinglin)

Company Secretary

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

Investor Relations Contact

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

Legal Advisors to the Company

As to Hong Kong law:
Deacons

As to Chinese law:
Global Law Office

As to Cayman Islands law:
Conyers, Dill & Pearman

As to U.S. law:
Shearman & Sherling

Auditor

PricewaterhouseCoopers

Property Valuer

Jones Lang LaSalle Sallmanns Limited

Compliance Advisor

Quam Capital Limited

Principal Bankers

China
China Merchants Bank
China Construction Bank
China Bohai Bank

Hong Kong
The Hongkong & Shanghai Banking Corporation Limited

Stock Information

Place of Listing
The Stock Exchange of Hong Kong Limited

Stock Code
0877

Listing Date
29 April 2010

Issued Shares Capital
833,095,240 shares

Board Lot Size
1,000 shares

Cayman Share Registrar

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

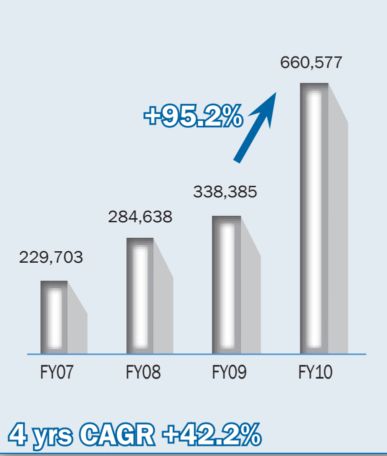
Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

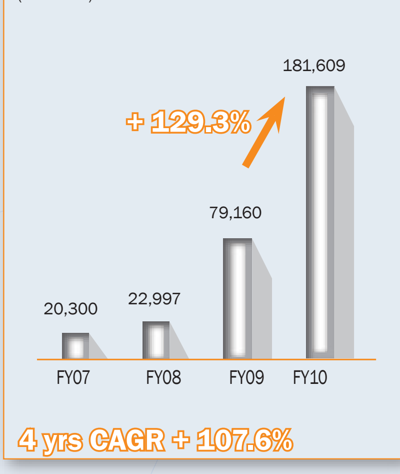
TURNOVER

(HKD'000)

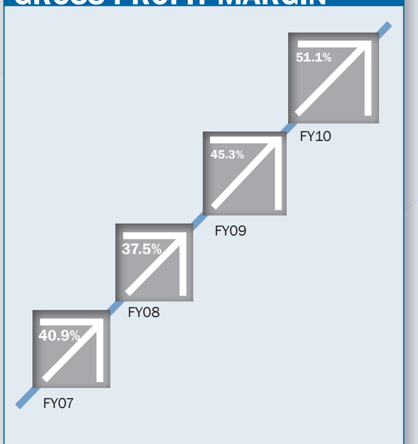


PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

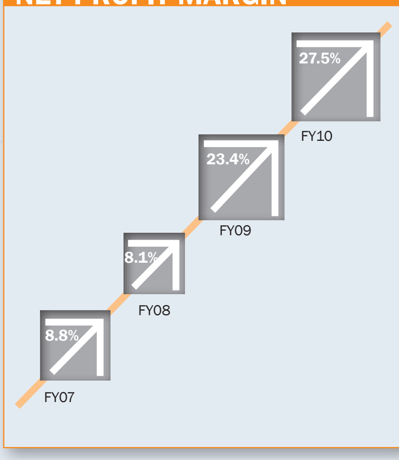
(HKD'000)



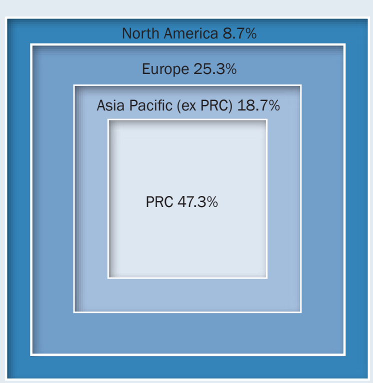
GROSS PROFIT MARGIN



NET PROFIT MARGIN

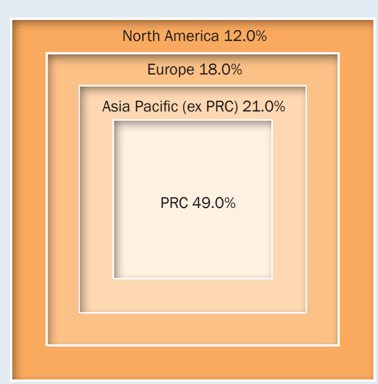


TURNOVER BY GEOGRAPHICAL SEGMENT



2010

TURNOVER BY GEOGRAPHICAL SEGMENT



2009

Chairman's Statement

The Group has focused on the research, development, manufacture and sale of passive optical products mainly used in broadband and fiber optic network systems. During the year of 2010, the Group performed brilliantly and achieved encouraging results.

O-Net is very proud of our profitability. Net profit attributable to the shareholders of the Company amounted to **HKD181.6** *million in 2010, a remarkable increase of 129.3%.*

Dear Shareholders,

It has been my great pleasure to present to you our first annual report for the year ended 31 December 2010 following the listing of O-Net Communications (Group) Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group") on the main board of The Stock Exchange of Hong Kong Limited ("SEHK").

During the year, the Group achieved record revenue of HKD660.6 million, representing increase of 95.2% in comparing to revenue of 2009. Net profit attributable to the shareholders of the Company ("Shareholders") amounted to HKD181.6 million in 2010, a remarkable increase of 129.3% from HKD79.2 million of 2009.

The global fiber optic component industry experienced solid growth in 2010. Global demand for fiber optic equipment has been in steady growth mode since the second half of 2009, fueled mainly by the ever-growing bandwidth demand. Innovations at networking applications, primarily video and mobility, have led to rapid increase of global networking traffic. Bandwidth consumption at core and access network has been growing globally, and in some cases caused shortage of network capacity. As a result, optical networking equipment is experiencing rapid increase of demand as global telecom carriers rush to add capacity or upgrade their existing network system.

The Group dates its root back to the year of 2000. We have experienced the ups-and-downs of global fiber optic industry since our inception, and managed to overcome many challenges, being technological or financial, and grown into today's industry leading position. During the past decade we have developed five core technology platforms – optical coating, precision processing, passive packaging, electronic design and proprietary manufacturing process, with numerous world-class IPs. We are also very proud of our profitability. We are among the first group of fiber optic component companies in the world to become profitable, and currently still maintain one of the highest profit margins in our industry.

Chairman's Statement

In order to obtain additional capital for future growth, and further expand our business scope globally, the Group was successfully listed on the SEHK in April 2010. The listing also represented a significant milestone for the Group's development history, which has also helped lift the Group's competitive position in the global market. The post-initial public offering (the "IPO") share price performance has been favorable, reflecting investors' recognition of our top and bottom line growth potential, and our competitive advantage.

Since the completion of IPO, the Group has stepped up our effort on research and development ("R&D") works. We have successfully launched new products targeting the fast growing next-generation network markets – mainly 40G and 100G markets. We have not only introduced additional products in main-product lines such as wavelength management, transmission management and power management, but also new key product, Tunable Dispersion Compensator, in the signal-conditional category. The Group has further strengthened our customer base by adding two new top-notch system customers in China. We are also beefing up our design-in activities with overseas customers in the U.S., Europe and Japan. The Group's new plant in Pingshan, Shenzhen is still on-going, and is expected to complete the Phase I Construction during the second half of 2011. The new plant will add significant capacity to the Group's production line, and help service better our global customers.

Looking forward, we are confident with the Group's future prospect. We intend to continue investment in core technology development, further build up our vertically-integrated business model, broaden our global customer base, increase our involvement with key customers' development cycles, and optimize our manufacturing capabilities. With our established technology and cost advantage, we are ready to capture the market opportunities brought about by the fast-growing optical networking industry.

Finally, I would like to take this opportunity to thank all of our staff and management team. Without their hard work and diligence, we could never have accomplished what we have. I also want to thank all Shareholders and business partners for their valuable support prior to and post our IPO. In the future we plan to continue our excellent execution of the Group's business plan by taking advantage of our industry growth opportunity, and create more value to our Shareholders and the society.

The Group was successfully listed on SEHK in April 2010 and raised net proceeds approximately

HKD512.8 million

Na Qinglin
Co-Chairman
Hong Kong, 15 March 2011

Management Discussion and Analysis

O-Net Communications (Group) Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group") has focused on the research, development, manufacture and sale of passive optical products which included sub-components, components, modules and sub-systems mainly used in broadband and fibre optic network systems. Based on our core proprietary technologies and vertically integrated business model, the Group design, manufacture and market our innovative optical products to the leading telecommunications system vendors. During the year of 2010, the Group performed brilliantly and achieved encouraging results.

The successful listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") on 29 April 2010 (the "Listing Date") and the share placement on 15 November 2010 (the "Placement") have 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 and the net proceeds from the Placement amounted to approximately HKD326.1 million. With the support of investors, as well as the market's recognition of its competitive advantages in terms of the Group's innovation, strong research and development capabilities and financial capacity to invest in advanced technology relating to development and production of optical products, the Group is confident to maintain excellent performance and provide fruitful returns to investors in the future.

Business Review

The worldwide economy continued to improve in 2010 with a notable recovery continuing from the second half of 2009. We reported solid results for the first annual results of 2010 having increased business with our existing customers. In addition, we continue to acquire international leading customers to our existing customer base. We believe our market share has increased within the optical components industry. Supported by the increasing or accelerating of the capital expenditure plans on the telecommunication expenses in global market, the Company delivered and sustained healthy financial performance and strong revenue growth during the second half of 2010. In order to maximize our potential, the Company launched more next generation products and expanded more new products reach to include areas other than the existing products solutions. The Company remains committed to advance our leadership in technology, and the development of in-house intellectual property.

During the year, the Company further expanded its operation scale to cope with increasing demand from customers. The Company has significantly increased in its overall capacity. Total operating space was increased by 2,727 square meters. Total headcount has increased to 2,088 as of 31 December 2010, from 1,518 as of 31 December 2009.

The Company has continued its success in customer development and new product launches. During the year, the Company has successfully completed qualifications with two new customers in China and further enhanced business relationships with additional international customers. The Company has also started shipment of a few new products targeting at 40G 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.

Management Discussion and Analysis

Financial Review

Revenue

Revenues for the year ended 31 December 2010 were HKD660.6 million, an increase of HKD322.2 million, or 95.2%, from revenues of HKD338.4 million for the year ended 31 December 2009. The increase in revenues for the year of 2010 is primarily attributable to growth of demand from existing customers as well as adding new customers to our solid customer bases. The increase in demand including the products such as variable optical attenuators ("VOA") products, erbium doped fiber amplifiers ("EDFA") products, wavelength lockers, free space optical isolators and new dense wavelength division multiplexing ("DWDM") products.

Gross Profit and Gross Profit Margin

Gross profit for the year ended 31 December 2010 was HKD337.8 million, an increase of HKD184.6 million, or 120.5%, from gross profit of HKD153.2 million for the year ended 31 December 2009. Gross profit as a percentage of total revenues, or gross profit margin, increased to 51.1% for the year ended 31 December 2010 as compared to 45.3% for the year ended 31 December 2009. As more fully described below, this increase was caused by a focus on higher margin products, price reductions in raw materials and improved in production efficiency. The increase in overall gross profit margin was primarily attributable to change of product mix to the products with relative higher selling price; improvement of production yield and production efficiency of the legacy products and the decrease of cost of key materials offset partially by the price concessions we offered to our customers.

Other Gains

Other gains for the year ended 31 December 2010 were HKD1.1 million, a decrease of HKD1.0 million, or 47.6%, from other gains of HKD2.1 million for the year ended 31 December 2009. As compared to 2009, such decrease is primarily due to the reduction on the government grants by HKD1.9 million to HKD0.4 million for the year ended 31 December 2010 which offset partially loss from sales of scrapped or surplus raw materials by HKD0.3 million for the year ended 31 December 2009 to gain from sales of scrapped or surplus raw materials by HKD0.9 million for the year ended 31 December 2010.

Selling and Marketing Costs

Selling and marketing costs for the year ended 31 December 2010 were HKD33.0 million, an increase of HKD15.6 million, or 89.7%, from selling and marketing costs of HKD17.4 million for the year ended 31 December 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 5.0% for the year ended 31 December 2010 as compared to 5.1% for the year ended 31 December 2009. The decrease in selling and marketing costs as a percentage of revenues was primarily attributable to faster growth of revenue and greater economies of scale.

Sales commissions for the year ended 31 December 2010 were HKD19.6 million, an increase of HKD10.6 million, or 117.8%, from HKD9.0 million for the year ended 31 December 2009. The increase was primarily attributable to the fact that our overseas revenues for the year ended 31 December 2010 increased by HKD175.2 million, or 101.5% for the year ended 31 December 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 5.2% for the year ended 31 December 2009 and 5.6% for the year ended 31 December 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.

Freight expenses for the year ended 31 December 2010 were HKD4.1 million, an increase of HKD2.2 million, or 115.8%, from HKD1.9 million for the year ended 31 December 2009. The increase was primarily attributable to the faster growth on the overseas revenues for the year ended 31 December 2010 in compared to the domestic revenues that incurred higher transportation expenses in the overseas business.

Research and Development Expenses

Research and development ("R&D") expenses for the year ended 31 December 2010 were HKD31.8 million, an increase of HKD14.9 million, or 88.2%, from R&D expenses of HKD16.9 million for the year ended 31 December 2009. The increase in R&D expenses was primarily attributable to the increase in investment in R&D projects. R&D expenses as a percentage of revenues decreased to 4.8% for the year ended 31 December 2010 as compared to 5.0% for the year ended 31 December 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.

Raw material costs used by the R&D projects for the year ended 31 December 2010 were HKD15.5 million, an increase of HKD9.5 million, or 158.3%, from HK6.0 million for the year ended 31 December 2009. The increase was primarily attributable to new R&D projects the Company undertook in 2010, particularly on the 40G and 100G areas.

Administrative Expenses

Administrative expenses for the year ended 31 December 2010 were HKD67.3 million, an increase of HKD35.9 million, or 114.3%, from HKD31.4 million for the year ended 31 December 2009. The increase in administrative expenses was primarily attributable to increase in share options expenses, auditor's remuneration expenses, low costs consumables, utilities charges and other administrative expenses. Administrative expenses as a percentage of revenues increased to 10.2% for the year ended 31 December 2010 as compared to 9.3% for the year ended 31 December 2009 was primarily because of the additional administrative expenses as a public company listing on the SEHK.

Share options expenses for the year ended 31 December 2010 were HKD8.7 million, an increase of HKD7.4 million, or 569.2%, from HKD1.3 million for the year ended 31 December 2009. The increase was primarily attributable to grant of share options to our staffs in 2010.

Auditor's remuneration expenses for the year ended 31 December 2010 were HKD2.3 million, an increase of HKD2.2 million as compared to the year ended 31 December 2009. The increase was primarily attributable to the expenses associated with financial audit as a result of being a public company listed on the SEHK.

Low costs consumables for the year ended 31 December 2010 were HKD5.4 million, an increase of HKD3.1 million, or 134.8%, from HKD2.3 million for the year ended 31 December 2009. The increase was primarily attributable to the decoration costs and addition office equipments for the new production capacities and the cost related to re-location of office.

Utilities expenses for the year ended 31 December 2010 were HKD5.2 million, an increase of HKD3.0 million, or 136.4%, from HKD2.2 million for the year ended 31 December 2009. The increase was primarily attributable to addition of office and staff quarters by increased hiring of staff as the Group increasing its operation scale.

Sundries expenses for the year ended 31 December 2010 were HKD5.4 million, an increase of HKD4.5 million, or 500.0%, from HKD0.9 million for the year ended 31 December 2009. The increase was primarily attributable to the additional professional fees and management expenses as a public company listed on the SEHK.

Finance Costs

Finance cost for the year ended 31 December 2010 were HKD3.0 million, an increase of HKD1.9 million, or 172.7%, from HKD1.1 million for the year ended 31 December 2009. The finance costs was due to the bank interest income of HKD4.6 million be offset by the foreign exchange loss HKD7.7 million as most of the subsidiaries of the Group's functional currency is denominated in RMB rather than HKD. The increase in bank interest income of HKD4.6 million was primarily attributable to the additional cash raised from IPO and Placement and the deposit made during the year. The increase in exchange loss of HKD7.1 million was primarily attributable to the net proceeds from IPO is held in HKD rather than the Group's functional currency.

Profit before Tax and Profit before Tax Margin

Profit before tax increased by HKD115.2 million from HKD88.5 million for the year ended 31 December 2009 to HKD203.7 million for the year ended 31 December 2010. Profit before tax as a percentage of total revenues, namely profit before tax margin, increased from 26.2% for the year ended 31 December 2009 to 30.8% for the year ended 31 December 2010. The increase in profit before tax and profit before tax margin for the year ended 31 December 2010 was primarily due to an increase in gross profit margin of 51.1% as compared to 45.3% in 2009.

Income Tax Expenses

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 year ended 31 December 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.

Income tax expenses for the year ended 31 December 2010 were HKD22.1 million, an increase of HKD12.8 million, or 137.6% from an income tax expense of HKD9.3 million for the year ended 31 December 2009. The increase in income tax expenses was primarily due to an increase of net profits before tax in 2010 and an increase of the enacted tax rate of the Group's subsidiary located in the PRC, O-Net Communications (Shenzhen) Limited ("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 HKD102.4 million from HKD79.2 million for the year ended 31 December 2009 to HKD181.6 million for the year ended 31 December 2010, representing 129.3% growth. Profit attributable to equity holders as a percentage of total revenues, namely net profit margin, increased from 23.4% for the year ended 31 December 2009 to 27.5% for the year ended 31 December 2010. The increase in profit attributable to equity holders and net profit margin for the year ended 31 December 2010 was primarily due to an increase in gross profit margin of 51.1% as compared to 45.3% of the in 2009.

Reconciliation of 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 ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). A reconciliation of non-GAAP financial measures can be found in the accompanying tables. The Group believes that, while these non-GAAP financial measures are not a substitute for results, they provide a basis for evaluating the Company's cash requirements for ongoing operating activities. These non-GAAP financial measures have been reconciled to the nearest measures as required under HKFRS issued by the HKICPA.

Management Discussion and Analysis

	For the year ended 2010 HKD'000 (unaudited)	2009 HKD'000
Adjustments to measure non-GAAP gross profit		
Gross profit	**337,816**	153,248
Adjustments related to cost of sales:		
Provision for/(write-back of) inventories provision	**(1,073)**	984
Non-GAAP Gross profit	**336,743**	154,232
Adjustments to measure non-GAAP net profit		
Net profit	**181,609**	79,160
Adjustments related to cost of sales:		
Provision for/(write-back of) inventories provision	**(1,073)**	984
	180,536	80,144
Adjustments to measure to operating expenses:		
Share options granted to directors, employees and sales distributors	**11,587**	3,656
Exchange loss	**7,692**	569
Non-GAAP Net Profit	**199,815**	84,369
Non-GAAP earning per share ("EPS")		
– Basic	**0.28**	0.15
– Diluted	**0.28**	0.15
Gross Profit Margin	**51.1%**	45.3%
Non-GAAP Gross Profit Margin	**51.0%**	45.6%
Net Profit Margin	**27.5%**	23.4%
Non-GAAP Net Profit Margin	**30.2%**	24.9%

Non-GAAP Profit Analysis

Non-GAAP net income for the year ended 31 December 2010 was HKD199.8 million, or HKD0.28 per share, compared to non-GAAP net income of HKD84.4 million, or HKD0.15 per share, reported for the year ended 31 December 2009. Non-GAAP results for the year ended 31 December 2010 exclude HKD1.1 million in reversal of excess and obsolete inventory, HKD11.6 million in share options granted to directors and employees expenses and HKD7.7 million exchange loss. Non-GAAP results for the year ended 31 December 2009 exclude HKD1.0 million in provision for excess and obsolete inventory, HKD3.7 million in share options granted to directors and employees expenses and HKD0.6 million exchange loss.

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 year under review, the Group's major R&D projects undertaken and key products launched included wavelength lockers, Differential Phase-Shift Keying ("DPSK"), Differential Quaternary Phase-Shift Keying ("DQPSK"), Interleavers, Tunable Dispersion Compensator ("TDC") and Optical Channel Monitors ("OCM").

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 TDC and OCM.

Future Prospects

Since the commencement of operations in 2000, the Group has been recognised for technology innovation, quality products and operation efficiency, which earned it a broad customer base and has become a leader in producing high-end, specialised optical components, module and sub-systems for use in the broadband and optical network system. The strong customer base forms a great demand for the Group's high quality and customised products.

In 2011, further recovery in the global economy and the acceleration of upgrading in the developed and emerging countries as well as the penetration in the developing countries have driven the capital expenditure on the telecommunication industry. Together with the growing applications as well as increasing demand for bandwidth have led to surge in need for fiber optic equipment, the market for 2011 looks set to outperform that in 2010.

Year 2011 not only heralds the start of China's Twelfth Five-Year Plan but also the Group's entrance into its second decade. Going forward, we will continue to adhere to the belief of "Innovation Drives Market Growth" by developing key technologies for next generation networks, and strive to be the leading supplier of optical products in the world. We are fully committed to generating more returns to the shareholders of the Company ("Shareholders").

Group's Liquidity, Financial Resources and Capital Structure

As at 31 December 2010, the Company's issued share capital was HKD8.3 million divided into 833,095,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,249.3 million (31 December 2009: HKD188.4 million). The Group had current assets HKD1,303.2 million and current liabilities of HKD168.5 million and the current ratio was 7.7 times (31 December 2009: 1.9 times). The Group's net debt-to-equity ratio (calculated as total borrowing net of cash equivalents over shareholders' equity) and gearing ratio (calculated as total borrowings over shareholders' equity) was not applicable as at 31 December 2010 since the Group did not have any borrowing. As of 31 December 2010, the Group had cash and cash equivalents approximately HKD507.8 million (31 December 2009: HKD26.5 million). The significant increase was due to net proceeds from our IPO and the Placement. 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 balance to meet its commitment and working capital requirement in the coming financial year.

Pledge on Group Assets

Apart from HKD27.0 million bank deposits pledged as performance guarantee for contractor and suppliers for the construction of the new facilities in Shenzhen, as at 31 December 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 year ended 31 December 2010, the Group was committed to the expansion of existing facilities and building of new facilities to enhance its production capacity. As at 31 December 2010, the Group has contractual capital commitments of approximately HKD182.8 million, including construction contract of approximately HKD179.8 million for our new facilities in Shenzhen which in line with the use of proceeds from the IPO that set out in the Prospectus. As at 31 December 2010, the directors of the Company had also authorized a capital expenditure of approximately HKD102.2 million for the construction of new facilities and expansion of production lines that have not been contracted for. As of 31 December 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 year ended 31 December 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 HKD53.6 million (31 December 2009: HKD11.3 million).

Exposure to Fluctuations in Exchange Rates and Related Hedge

During the year, the Group conducted its business transactions principally in US dollars and Renminbi. The Group has not experienced any material difficulties or negative impact on its operations as a fluctuation in currency exchange rates. Accordingly, the Directors considered that the foreign exchange exposure is relatively limited and no hedging of exchange risk is required.

As an internal policy, the Group continues to implement a prudent policy on financial management policy and does not participate in any high risk speculative activities. 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 is 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 Hong Kong Dollars, as the directors consider that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the Shareholders. The Group's cash and bank deposits are mostly denominated in RMB. The Company will pay dividends in Hong Kong Dollars if dividends are declared.

Employee Benefits

As at 31 December 2010, the Group had a total of 2,088 employees (31 December 2009: 1,518). The Group's staff cost (including directors' fees) amounted to HKD117.7 million (31 December 2009: HKD61.5 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice.

The Group 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, employees, 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 contribution to the success of the Group. During the year ended 31 December 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.

Final Dividend

The Board did not recommend the payment of any final dividend for the year ended 31 December 2010.

Significant Investments Held and Material Acquisition

Save for the undertaking of the reorganization in preparation for the listing of the Company's shares on the SEHK as more particularly described in the Prospectus, the Group did not have any significant investments, material acquisition or disposal of subsidiaries or associations for the year ended 31 December 2010.

Material Event Since the End of the Financial Period

Apart from the "Future Plans and Use of Proceeds" as set out in the Prospectus and grant of share option as subsequent event set out in note 31 of consolidated financial statements, there has no other important event affecting the Group since 31 December 2010.

Directors' Rights to Acquire Shares or Debentures

Save for the grant of share options to the Directors during the year ended 31 December 2010, at no time during the year ended 31 December 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 shares in, or debt securities, including debenture, of the Company or any other body corporate.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Na Qinglin

Mr. Na, aged 44, the Co-Chairman and Chief Executive Officer of O-Net Communications Group Limited (the "Company"). He was appointed as an executive Director of the Company on 12 November 2009. He is a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Na is also a director of each of O-Net Communications (Shenzhen) Limited, O-Net Communications (Hong Kong) Limited and O-Net Communications Holdings Limited, all are subsidiaries of the Company. Mr. Na joined the Company as chief executive officer in January 2002 and subsequently appointed as co-chairman of the Company. He has been responsible for the Company's overall corporate strategy, management team development and daily operations since that time. Mr. Na obtained a Master's degree in Business Administration from Vanderbilt University in 1995 and a Bachelor's degree in International Economics from Peking University in 1989. Prior to joining us, Mr. Na co-founded and became the co-managing partner of Mandarin Venture Partners Limited in 2000. Mr. Na worked at the Hong Kong Office of Salomon Smith Barney between 1997 and 2000 and, prior to that, worked at the New York office of Salomon Brothers Inc. from 1995 to 1997. During his time at Salomon Brothers Inc., Mr. Na specialized in corporate finance for the Asia Pacific region. Mr. Na did not hold any directorship in other listed public companies in the past three years.

Mr. Na has entered into a service agreement with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once in every three years in accordance with the Articles of Association ("Articles") of the Company. The emolument of Mr. Na is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Na is deemed to be interested in an aggregate of 250,003,463 shares held by O-Net Holdings (BVI) Limited, the controlling shareholder of the Company, and he is interested in the share options of the Company exercisable into 6,800,000 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Save as disclosed above, Mr. Na does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules")) or controlling shareholders (as defined in the Listing Rules) of the Company.

Biographical Details of Directors and Senior Management

Mr. Xue Yahong

Mr. Xue, aged 51, the vice president of operations of the Company. He was appointed as an executive Director of the Company on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. Mr. Xue obtained a Master's degree in Engineering from Harbin Institute of Technology in 1985 and a Master's degree in Business Administration with a focus on finance from the University of Lincoln (United Kingdom), through a distance learning program administered by its Hong Kong branch, in 2002. Mr. Xue joined the operations team on March 2001. Since Mr. Xue took the position as the vice president of operations of the Company, he has been responsible for the overall supervision of the production, engineering, factory facilities and logistics of the the Company and its subsidiaries (the "Group"). During the past nine years, he has participated in the development and production of the products of the Company and has assisted in the transformation of our manufacturing facility from a manual manufacturing system to a semi-automated system managed by information technology capable of higher production capacity. Prior to joining us, Mr. Xue worked at 深圳長城開發科技股份有限公司 Shenzhen Kaifa Technology Co., Limited ("Shenzhen Kaifa") (Stock Code: 000021), a company listed on the Shenzhen Stock Exchange from 1990 to 2000, during which period he spent time in Hong Kong between 1995 and 2000 to focus on work related to operations, logistics, customs, project management and customer services. He was the vice general manager of the hard disk drive division of Shenzhen Kaifa from 1995 to 2000. Before becoming an engineer and joining Shenzhen Kaifa in 1990, Mr. Xue was a tutor at the SouthEast University for 5 years. Mr. Xue did not hold any directorship in other listed public companies in the past three years.

Mr. Xue has entered into a service agreement with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once in every three years in accordance with the Articles. The emolument of Mr. Xue is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Xue is interested in the share options of the Company exercisable into 1,000,000 shares of the Company within the meaning of Part XV of the SFO. Mr. Xue has approximately 7.85% attributable interest in O-Net Holdings (BVI) Limited, the controlling shareholder of the Company. Save as disclosed above, Mr. Xue does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Non-Executive Directors

Mr. Tam Man Chi

Mr. Tam, aged 63, the Co-Chairman and non-executive Director of the Company. He was appointed as Director of the Company on 30 November 2009. He is a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Tam is also a director of each of O-Net Communications Holdings Limited, O-Net Communications (Hong Kong) Limited and O-Net Communications (Shenzhen) Limited, all are subsidiaries of the Company. Mr. Tam is not involved in the day-to-day operations of the Group as a non-executive Director, but is engaged in providing business, financial and investment advice to the Company. Mr. Tam is also responsible for coordinating all matters and transactions that have or may have conflicting interests among Directors. Mr. Tam has been a director and subsequently became the chairman of Shenzhen Kaifa since July 1985. Mr. Tam has been an executive director of Great Wall Technology Company Limited (Stock Code: 74) since March 1998, and a non-executive director of TPV Technology Limited (Stock Code: 903) since October 2009, each of which is listed on the SEHK. Mr. Tam has been a director of 中國長城計算機深圳股份有限公司 (China Great Wall Computer Shenzhen Company Limited) (Stock Code: 000066) since 1999, a company listed on the Shenzhen Stock Exchange. Mr. Tam was awarded the title of Excellent Worker of Guangdong Province and the Leadership Award for Businessmen in Shenzhen in 2006. Save as disclosed above, Mr. Tam did not hold any directorship in other listed public companies in the past three years.

Mr. Tam has entered into a service agreement with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once in every three years in accordance with the Articles. The emolument of Mr. Tam is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Tam is interested in 9,337,480 shares of the Company within the meaning of Part XV of the SFO. Mr. Tam has approximately 6.16% attributable interest in O-Net Holdings (BVI) Limited, the controlling shareholder of the Company. Save as disclosed above, Mr. Tam does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Chen Zhujiang

Mr. Chen, aged 44, the non-executive Director of the Company. He was appointed as a Director of the Company on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. He is not involved in the day-to-day operations of the Group as a non-executive Director, but engaged in providing industry-related information and advice to the Group. Mr. Chen is a qualified engineer and economic administrator. Mr. Chen obtained a Bachelor's degree in engineering from Tianjin University in 1989 and a Master's degree from the Business School of Jilin University in 2007. Mr. Chen has been the chairman of Kaifa-O&M Components Co., Ltd. and the chairman of Shenzhen Kaifa Micro-Electronics Co., Ltd since April 2005. He has also been the chairman of Suzhou Kaifa Technology Co., Ltd since July 2005. Mr. Chen previously served as a director and general manager of 深圳華明計算機有限公司 (Shenzhen Huaming Computer Co., Ltd.), and served as the vice-chief of office of China Great Wall Computer Shenzhen Company Limited (Stock Code: 000066), a company listed on the Shenzhen Stock Exchange. He is also the vice-president of the Shenzhen Entrepreneur Association and the Shenzhen Association of Enterprises with Foreign Investment as well as the standing director of the Shenzhen Electronic Chamber of Commerce. Save as disclosed above, Mr. Chen did not hold any directorship in other listed public companies in the past three years.

Mr. Chen has entered into a service agreement with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once in every three years in accordance with the Articles. The emolument of Mr. Chen is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Chen does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Chen does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Huang Bin

Mr. Huang, aged 50, the non-executive Director of the Company. He was appointed as a Director on 30 November 2009. He is also a director of O-Net Communications (Shenzhen) Limited, a wholly-owned subsidiary of the Company. He is not involved in the day-to-day operations of the Group as a non-executive Director, but he is engaged in providing financial and investment advice to the Group. Mr. Huang obtained a Bachelor's degree in Economics from Harvard University in 1985. He began his financial services career in 1990 with Citibank as assistant vice president and chief representative of the bank's Beijing Office and was responsible for China's client coverage. He joined Lehman Brothers in 1993 as an associate and started the firm's Beijing Office. In 1995, he joined Salomon Brothers Asia Pacific as a vice president, and was a director of Salomon Smith Barney engaged in corporate finance for China market until he left the firm in 2000 to join Mandarin Venture Partners Limited in 2000 and has been responsible for investment project origination since then. Mr. Huang was an executive director of Fushan International Energy Group Limited (Stock Code: 639) from November 2008 to March 2009 and Theme International Holdings Limited (Stock Code: 990) from December 2009 to April 2010, each of which is listed on the SEHK. Save as disclosed above, Mr. Huang did not hold any directorship in other listed public companies in the past three years.

Mr. Huang has entered into a service agreement with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once in every three years in accordance with the Articles. The emolument of Mr. Huang is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Huang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Huang does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Bai Xiaoshu

Mr. Bai, aged 49, the independent non-executive Director of the Company. He was appointed as a Director on 9 April 2010. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company respectively. Mr. Bai holds a MBA degree from the International Institute for Management Development (IMD), Switzerland (formerly known as the 'International Management Institute, Geneva') since 1989 and a Bachelor's degree of Economics specializing in Industrial Corporate Management from Southwestern Finance & Economics University (formerly known as 'Sichuan Finance & Economics College'), China since 1983. Mr. Bai has also completed the Canadian Securities Course at the Canadian Securities Institute in 1992. Mr. Bai was the CFO of ReneSola Ltd., a company listed on AIM of London Stock Exchange and New York Stock Exchange, from May 2006 to 31 March 2010 and has been appointed as the chief strategy officer since 1 April 2010. Mr. Bai was the CFO of FEnet Co. Ltd. from March 2003 to April 2006. FEnet Co. Ltd. has two wholly-owned subsidiaries, namely Guangzhou FENet Software Co. Ltd. and Guangzhou FENet System Networks Co. Ltd. Mr. Bai was responsible for the corporate finance, financial, accounting management and internal audit affairs when he was the CFO of these companies. From 2001 to 2002, he was the Vice President of Tractebel Asia Co Ltd. ("Tractebel") in Bangkok, an energy company based in Thailand. From 1997 to 2001, Mr. Bai worked as a finance director of Ogden Energy Asia Pacific Co. Ltd. ("Ogden"), an energy company based in Hong Kong. At Tractebel and Ogden, Mr. Bai successfully completed a number of cross border mergers and acquisitions and project finance transactions. He was an associate director of Deutsche Bank in Hong Kong from 1995 to 1997 specializing in project and export finance. Mr. Bai did not hold any directorship in other listed public companies in the past three years.

Mr. Bai has signed a letter of appointment with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party on the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once every three years in accordance with the Articles. The emolument of Mr. Bai is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Bai is interested in the share options of the Company exercisable into 500,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Bai does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Deng Xinping

Mr. Deng, aged 44, the independent non-executive Director of the Company. He was appointed as a Director on 9 April 2010. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company respectively. Mr. Deng graduated from Hubei University, where he majored in Mathematics, in 1989. He then received a Master of Science degree from South China University of Technology in 1992. Mr. Deng has been a Vice President of Longtop Financials Technologies since 1 July 2007 and has been in charge of its Business Intelligence Unit which was established to provide Business Intelligence software solutions to corporate customers in China since 1 April 2009. In July 1995, Mr. Deng founded 廣州市菲奈特系統網絡有限公司 (Guangzhou FENet System Networks Co., Ltd.) which started as a provider of computer equipments and related technology. Since 2001, Mr. Deng was the CEO of 廣州菲奈特軟件有限公司 (Guangzhou FENet Software Co., Ltd.), a provider of software electronic products and computer systems, until it was acquired by Longtop Financials Technologies Limited, a company listed on the New York Stock Exchange (Stock Code: LFT) on 1 July 2007. Guangzhou FENet Software Co., Ltd and Guangzhou FENet System Networks Co., Ltd are also the wholly-owned subsidiaries of FEnet Co. Ltd. Mr. Deng did not hold any directorship in other listed public companies in the past three years.

Mr. Deng has signed a letter of appointment with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party on the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once every three years in accordance with the Articles. The emolument of Mr. Deng is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Deng is interested in the share options of the Company exercisable into 500,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Deng does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Ong Chor Wei

Mr. Ong, aged 41, the independent non-executive Director of the Company and was appointed on 9 April 2010. Mr. Ong holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London. He also holds a distance learning degree in Masters in Business Administration jointly awarded by The University of Wales and The University of Manchester. Mr. Ong is an associate member of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ong has over 20 years of experience in finance and accounting. He is currently an executive director of Net Pacific Financial Holdings Limited (previously known as 'K Plas Holdings Limited') and a non-executive director of Joyas International Holdings Limited, Jets Technics International Holdings Limited, all of which are companies listed on the Singapore Exchange Securities Trading Limited and Man Wah Holdings Limited, which is a company listed on the SEHK. Save as disclosed above, Mr. Ong did not hold any directorship in other listed public companies in the past three years.

Mr. Ong has signed a letter of appointment with the Company for a term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party on the other. He is subject to retirement and re-election at the first general meeting after his appointment, and thereafter at least once every three years in accordance with the Articles. The emolument of Mr. Ong is determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

As at the date of this report, Mr. Ong is interested in the share options of the Company exercisable into 500,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Ong does not have any relationship with any other Director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Senior Management

Dr. Yu Aihua

Dr. Yu, aged 53, is the Vice President of Research and Development – Modules and Subsystems. He joined the Company on 16 April 2004 and is currently responsible for the division of the Research and Development department that focuses on modules and subsystems. In this position, Dr. Yu oversees 37 employees. Dr. Yu has been involved in the optical communications industry since 1982 when he graduated from ("Nanjing Institute of Technology") (now Southeast University), specializing in electrical engineering. He completed his MS in electrical engineering in 1984 at Nanjing Institute of Technology. Dr. Yu received his Doctorate degree in electronic systems engineering in 1993 from Essex University in the United Kingdom. He also held the position of Chief Research Officer in the Department of Electronic Systems Engineering of Essex University between 1992 and 1997.

Ms. Xie Hong

Ms. Xie, aged 48, is the Vice President of Research and Development – Components. She became Head of Research and Development on 3 January 2001 and today manages 25 employees focused on research and development related to optical components. In that position, Ms. Xie oversees the development of new products, the improvement of existing products and the resolution of technical problems. Ms. Xie has been in the fiber optic research field since graduating with a Bachelor's degree from Zhejiang University in 1983. She completed her Master's degree from Zhejiang University in 1988. From 1983 through 1997, Ms. Xie was a faculty member at Zhejiang University, teaching optical engineering courses. She joined Shenzhen Kaifa Technology Co., Limited's fiber optic department in August 1999, after returning from a visiting scholar trip at the University of Illinois.

Mr. Tan Boon Thong

Mr. Tan, aged 41, is our Vice President of Sales & Marketing. He has been leading the Company's international sales since 1 February 2002 and global sales and marketing since 18 January 2004. He joined Shenzhen Kaifa Technology Co., Limited in 1998 where he was responsible for project engineering. Prior to that Mr. Tan worked as technical staff at Thomson Electric (Malaysia) Sdn. Bhd. and Seagate Technologies (Malaysia) Sdn. Bhd. Mr. Tan graduated with a Bachelor's degree in physics from the National University of Malaysia in 1994.

Mr. Kung Sze Wai

Mr. Kung, aged 38, is the VP of Finance and company secretary of the Company and is responsible for the financial, accounting and company secretarial functions of our Group. He has over 13 years of experience in finance, accounting, auditing, taxation and company secretarial services. He graduated from Monash University, Australia with a bachelor degree in Business in 2000 and obtained a master degree in Corporate Finance from the Hong Kong Polytechnic University in 2003. He was admitted as an associate member of the Association of International Accountants and the Hong Kong Institute of Certified Public Accountants in October 2000 and in February 2001 respectively. He had held various positions including executive director, chief financial officer, company secretary, and authorized representative in company listed in SEHK.

Corporate Governance Report

O-Net Communications (Group) Limited (the "Company") is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

Corporate Governance Practice

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules").

During the period from 29 April 2010 to 31 December 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 Company and its subsidiaries (the "Group") and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high 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 31 December 2010.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the period from 29 April 2010 to 31 December 2010.

Roles and Responsibilities of the Board

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters.

The Non-executive Directors and Independent Non-executive Directors, who combine to offer diverse industry expertise, serve the important function of providing relevant advise so as to assist the management on formulation of business strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

Composition

The Board currently consists of two executive Directors, three non-executive Directors and three independent non-executive Directors:

Executive Directors

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

Mr. Xue Yahong *(Vice President of Operation)*

Non-Executive Directors

Mr. Tam Man Chi *(Co-Chairman)*

Mr. Chen Zhujiang

Mr. Huang Bin

Independent Non-Executive Directors

Mr. Bai Xiaoshu

Mr. Deng Xinping

Mr. Ong Chor Wei

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical details of the Board are set out on pages 17 to 25 under the section headed biographical details of directors and senior management.

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Group Co-Chairman and Chief Executive Officer

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

The roles of the Co-Chairman and Chief Executive Officer of the Group are as follows:

Co-Chairman	responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures.
Chief Executive Officer	responsible for managing the Group's Director business, including the implementation of major strategies and initiatives adopted by the Board with the support from other Executive Directors, and within those authorities delegated by the Board.

Non-executive Directors

The three non-executive Directors and the three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of electronic, finance and accounting. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

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

Board Meetings

The Company was incorporated in the Cayman Islands on 4 December 2009 and registered as an oversea company under Part XI of the Companies Ordinance on 8 April 2010. During the period under review, the Board held 9 meetings:

Name of Directors	Number of attendance
Mr. Na Qingling	9/9
Mr. Xue Yahong	9/9
Mr. Tam Man Chi	6/9
Mr. Chen Zhujiang	6/9
Mr. Huang Bin	6/9
Mr. Ong Chor Wei*	6/6
Mr. Bai Xiaoshu*	6/6
Mr. Deng Xinping*	6/6

* Mr. Ong Chor Wei, Mr. Bai Xiaoshu and Mr. Deng Xinping were appointed as independent non-executive Directors of the Company on 9 April 2010, and 6 meetings were held after their appointment.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Board Committees

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the CG Code of the Listing Rules:

Audit Committee
Remuneration Committee
Nomination Committee

Each committee has authority to engage outside consultants or experts as it considers necessary to discharge the committee's responsibilities. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence and effectiveness, the Audit, Nomination, and Remuneration Committees have been structured to include a majority of independent non-executive Directors. Details and reports of the committees are set out below.

Audit Committee

All members of the Audit Committee are independent non-executive Directors and are responsible for, among others, the integrity of the financial statements of the Group, reviewing the effectiveness of the Group's internal controls and risk management systems, reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system and oversight of the relationship with external Auditors.

The Audit Committee currently comprises three members as follows:

Mr. Ong Chor Wei *(Chairman)*
Mr. Bai Xiaoshu
Mr. Deng Xinping

Terms of Reference

The Audit Committee was established to review the Group's financial controls, internal controls and risk management systems and make relevant recommendations to the Board. The Audit Committee has been chaired by an independent non-executive Director and all of the Audit Committee members are independent non-executive Directors. The chairman of the Audit Committee possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee also discuss with management the internal control system to ensure an effective internal control system is in place.

The Audit Committee also responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, to review the external auditor's independence, the Group's financial and accounting policies and practices.

The Audit Committee also review the Company's annual report and interim report before submission to the Board and to focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.

The Audit Committee also ensures proper arrangements are in place by which employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, in confidence and without fear of recrimination for fair and independent investigation of such matters and for appropriate follow-up action. Employees can report these concerns to either senior management or the Audit Committee. Any shareholders or stakeholders can also report similar concerns by writing in confidence to the Company's business address in Shenzhen, China.

During the year ended 31 December 2010, the Audit Committee held 2 meetings:

Name of Members	Number of attendance
Mr. Ong Chor Wei	2/2
Mr. Bai Xiaoshu	2/2
Mr. Deng Xinping	2/2

Remuneration Committee

The Remuneration Committee is chaired by a non-executive Director. The Remuneration Committee is responsible for, among others, the determination, subject to the agreement with the Board, the framework or policy for the remuneration of the Chairman, Chief Executive Officer, the Executive Directors and such other members of the executive management as it is designated to consider. The Remuneration Committee shall also determine the total individual remuneration package of each Executive Director and other senior executives including bonuses, incentive payments and share options or other share awards within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive Officer as appropriate.

The Remuneration Committee currently comprises five members as follows:

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

During the financial year ended 31 December 2010, no meeting of the Remuneration Committee was held since the Remuneration Committee was only established on 9 April 2010.

Nomination Committee

The Nomination Committee is chaired by the Group Chief Executive Officer. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition, assessment of the independence of Independent Non-executive Directors and the management of board succession.

The Nomination Committee currently comprises five members as follows:

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

During the year ended 31 December 2010, no meeting of the Nomination Committee was held since the Nomination Committee was only established on 9 April 2010.

Internal Control

The Board is responsible for maintaining a sound and effective system of internal controls and for reviewing its effectiveness. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis.

During the year ended 31 December 2010, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. It was concluded that the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication.

There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

External Audit

Our external auditor, PricewaterhouseCoopers, performs independent statutory audits on the Group's consolidated financial statements. The Audit Committee also has unrestricted access to external auditor as necessary. Our external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control system which might come to its notice during the course of audit.

Prior to the commencement of the audit of the Company, the Audit Committee should be received written confirmation from the external auditor on its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Audit Committee have been satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers, and the Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers as the Company's external auditor after initial public offering.

Auditors' Remuneration

The Company paid/payable a total remuneration of HKD2,298,000 to PricewaterhouseCoopers for their annual auditing services of 2010. There is no non-audit services rendered by the auditors of the Company during the year.

Directors' Responsibilities for the Financial Statements

The Directors acknowledge its responsibility to prepare the Company's account for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2010, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Shareholder Rights

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll were included in the circular to shareholders in relation to the holding of general meeting and explained, together with the procedures for conducting a poll, at the commencement of the meetings.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholder at a general meeting must be taken by poll. As such, all resolutions set out in the notice of the 2011 annual general meeting of the Company will be voted by poll.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The annual report together with the relevant circular are distributed to all the shareholders at least 20 clear business days before the annual general meeting.

Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the website of the SEHK and the Company's website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

The directors of O-Net Communications (Group) Limited (the "Company") is pleased to submit their first report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

Reorganisation and the initial public offering ("IPO")

The Company was incorporated in the Cayman Islands as exempted company with limited liability on 12 November 2009. Pursuant to a reorganization to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK"), the Company became the holding company of the companies now comprising the Group.

Use of Proceeds from the Company's IPO

The Company was listed on the SEHK on 29 April 2010 with net proceeds from the IPO amounted to approximately HKD512.8 million. During the period from 29 April 2010 (the "Listing Date") to 31 December 2010, the Group utilised the net IPO proceeds in the following manner, which is consistent with the "Use of proceeds" set out in the Prospectus:

Use of proceeds	**Net IPO proceeds (HKD million)**		
	Available	**Utilised**	**Unutilised**
New production facilities	200.0	9.1	190.9
Production line and research development expansion	40.0	40.0	–
Repayment of Shenzhen Kaifa Technology Co., Limited for rent and operating expenses paid on behalf of the Group	34.0	34.0	–
Working capital	101.8	101.8	–
Other including M&A	137.0	–	137.0
Total	512.8	184.9	327.9

Most of the net proceeds from the IPO were deposited into banks in PRC and Hong Kong. The Group will apply the net proceeds from the IPO in the manner as set out in the Prospectus.

Placing of Existing Shares and Subscription of New Shares

The Company entered into a placing agreement with O-Net Holdings (BVI) Limited, a controlling shareholder of the Company ("First Vendor"), Kaifa Technology (H.K.) Limited, a then controlling shareholder of the Company ("Second Vendor"), Piper Jaffray Asia Securities Limited and Nomura International (Hong Kong) Limited ("Placing Agents") on 1 November 2010 in relation to the placing of up to 115,293,000 Shares beneficially owned by the First Vendor and Second Vendor ("Placing Agreement").

The Company also entered into a subscription agreement with the First Vendor on 1 November 2010 in relation to the subscription of 60,000,000 new ordinary shares of HKD0.01 of the Company ("Subscription Agreement").

The details of the Placing Agreement and Subscription Agreement are as follow:

(1) the reasons for making the issue

The proceeds from the issue is for the use of (i) potential investment in technology relating to production of optical components; and (ii) general working capital of the Group.

(2) the class of equity securities issued

Ordinary share(s) of HKD0.01 each in the share capital of the Company.

(3) the number issued and their aggregate nominal value

115,293,000 ordinary shares of HKD0.01 with aggregate nominal value of HKD1,152,930 for placing; 60,000,000 ordinary shares of HKD0.01 with aggregate nominal value of HKD600,000 for subscription.

(4) the issue price of each security

HKD5.50 per placing and subscription shares.

(5) the net price to the Company of each share;

There was placing agent commission of 1% on the gross proceeds of the number of the shares that the Placing Agents have underwritten to be placed, which was arrived at after arm's length negotiation between the Company and each of the Placing Agents.

The Company paid the costs and expenses of the subscription, and paid to the First Vendor its costs and expenses of the placing. The net price to the Company of each subscription share is about HKD5.44.

(6) the names of the allottees

For the placement, not less than six placees who are independent of and not connected with any of the Company and its subsidiaries, their respective directors, chief executives, substantial shareholders, and their respective associates (as defined in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules");

For the subscription, First Vendor is owned as to 49.18% by Mandarin IT Fund I, (i) 23.70% by Mariscal Limited; (ii) 18.48% by O-Net Employee Plan Limited; and (iii) 6.95% by Mr. Na Qinglin and 1.69% by Mr. Xue Yahong as at the date of placing.

(i) 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 Geoffrey 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 Securities and Futures Ordinance (the "SFO");

(ii) Mariscal Limited is held as to 44.45% by Mandarin IT Fund I and as to 55.55% by Mandarin Assets Limited, which is 100% owned by Mr. Na Qinglin;

(iii) O-Net Employee Plan Limited is held as to approximately 33.33% respectively by Mr. Na Qinglin, Mr. Tam Man Chi and Mr. Xue Yahong.

(7) the market price of the securities concerned on a named date, being the date on which the terms of the issue were fixed

HKD5.50 per placing share, representing a discount of approximately 4.84% to the closing price of HKD5.78 per Share as quoted on the SEHK on 1 November 2010, being the full trading day immediately prior to the Placing Agreement and the Subscription Agreement were entered into ("Last Trading Day"), and a discount of approximately 4.35% to the average closing price of HKD5.75 per Share as quoted on the SEHK for the last five trading days ended on and including the Last Trading Day.

(8) the use of the proceeds

(i) potential investment in technology relating to production of optical components; and

(ii) general working capital of the Group.

Principal Activities

The Group is principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem used in high-speed telecommunications and data communications.

Results and Appropriations

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 48 to 117.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2010.

Annual General Meeting

The 2011 annual general meeting of the Company ("2011 AGM") will be held on Thursday, 12 May 2011.

Share Capital

Details of movements in the Company's share capital for the year ended 31 December 2010 are set out in note 14 to the consolidated financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association ("Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 29 April 2010 to 31 December 2010.

Distributable Reserves

As at 31 December 2010, the Company's reserves available for distribution to the shareholders amounted to approximately HKD1,048.9 million.

Directors

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

Executive Directors

Mr. Na Qinglin
Mr. Xue Yahong

Non-executive Directors

Mr. Tam Man Chi
Mr. Chen Zhujiang
Mr. Huang Bin

Independent Non-executive Directors

Mr. Ong Chor Wei (appointed on 9 April 2010)
Mr. Bai Xiaoshu (appointed on 9 April 2010)
Mr. Deng Xinping (appointed on 9 April 2010)

In accordance with article 83(3) of the Company's Articles, all of the above Directors will retire and, being eligible, offered themselves for re-election at the forthcoming 2011 AGM.

Independence Confirmation

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Share Option Scheme

Details of the share option scheme adopted before the IPO are set out in the Prospectus and Note 30 to the financial statements.

Share Option Scheme Adopted after the IPO ("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. The maximum number of shares in respect of which options may be granted shall not in aggregate, exceed 10% of the shares in issue at the date of listing of the shares, unless approved by the shareholders of the Company.

Acceptance of the option must be made within 28 days after the date of offer and HKD10.00 must be paid as a consideration for the grant of option.

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

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

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 (HKD)	Outstanding at 1 January 2010	Granted/ (lapsed) during the period	Outstanding at 31 December 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. Ong Chor Wei	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. Deng Xinping	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 year ended 31 December 2010.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

Directors' Service Contracts

Each of the executive Directors and non-executive Directors has entered into a service agreement dated 9 April 2010 with the Company for an initial fixed period of three years commencing from 22 April 2010 until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

Each of the independent non-executive Directors has signed a letter of appointment dated 9 April 2010 with the Company for an initial fixed term of three years commencing from 22 April 2010 unless terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors who are proposed for re-election at the 2011 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

None of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year except an instrument of transfer dated 29 March 2010 entered into between O-Net Communications Limited ("O-Net Cayman"), a company incorporated in the Cayman Islands, and Tam Man Chi, according to which Tam Man Chi acquired 160 Shares, representing 1.60% equity interest in the Company as a result of the distribution in specie effected by O-Net Cayman.

Directors' Interests in Shares

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

As at 31 December 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 SFO) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short 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 of Director	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of a controlled corporation	Long position	250,003,463 *(Note 1)*	30.01%
	Beneficial owner	Long position	6,000,000 *(Note 2)*	0.72%
Mr. Xue Yahong	Beneficial owner	Long position	500,000 *(Note 2)*	0.06%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.12%
Mr. Bai Xiaoshu	Beneficial owner	Long position	500,000 *(Note 2)*	0.06%
Mr. Deng Xinping	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 250,003,463 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 Chief Executive Officer of the Company; therefore, Mr. Na Qinglin is deemed to be interested in these 250,003,463 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 Note 30 to the Consolidated Financial Statements.

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

As at 31 December 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	227,636,237	27.32%
Shenzhen Kaifa Technology Co., Ltd.	Interest of controlled corporation	Long position	227,636,237 *(Note 1)*	27.32%
Great Wall Technology Company Limited	Interest of controlled corporation	Long position	227,636,237 *(Note 1)*	27.32%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	250,003,463	30.01%
Mandarin IT Fund I	Interest of controlled corporation	Long position	250,003,463 *(Notes 2 & 3)*	30.01%
HC Capital Limited	Interest of controlled corporation	Long position	250,003,463 *(Notes 2 & 3)*	30.01%
Hsin Chong International Holdings Limited	Interest of controlled corporation	Long position	250,003,463 *(Notes 2 & 3)*	30.01%
Yeh Meou Tsen, Geoffery	Interest of controlled corporation	Long position	250,003,463 *(Notes 2 & 3)*	30.01%
Mandarin VP (BVI) Limited	Investment manager of Mandarin IT Fund I	Long position	250,003,463 *(Notes 2 & 4)*	30.01%
Mandarin Venture Partners Limited	Interest of controlled corporation	Long position	250,003,463 *(Notes 2 & 4)*	30.01%
Mr. Na Qinglin	Interest of controlled corporation	Long position	250,003,463 *(Notes 2 & 4)*	30.01%
	Beneficial owner	Long position	6,000,000 *(Note 5)*	0.72%

Notes:

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

(2) These 250,003,463 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 250,003,463 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, the Co-Chairman, Chief Executive Officer and an executive Director of the Company; therefore, each of Mandarin VP (BVI) Limited, Mandarin Venture Partners Limited and Mr. Na Qinglin is deemed to be interested in 250,003,463 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 Note 30 to the Consolidated Financial Statements.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2010.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the period from 29 April 2010 to 31 December 2010.

Major Customers and Suppliers

During the year, the Group's purchase from the five largest suppliers accounted for approximately 35.3% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 13.5% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 50.4% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 20.1% of the Group's total sales.

None of the Directors of the Company, their associates, nor any shareholder which to the best knowledge of the Directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers.

Connected Transactions

Certain related party transactions as disclosed in Note 29 to the Consolidated Financial Statements also constituted connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules.

During the year ended 31 December 2010, the Group carried out certain business transaction with the following connected persons:

(a) During the year ended 31 December 2010, the Group purchased fixed assets from Butterfly Technology (Shenzhen) Ltd., Co. amounted to approximately HKD102,000 (2009 – Nil).

(b) During the year ended 31 December 2010, the Group purchased fixed assets from Shenzhen Kaifa Technology Co., Ltd amounted to approximately HKD71,000 (2009 – Nil).

Since each of the percentage ratios (other than profits ratio) for the annual amount of the above transactions were less than 0.1%, the transactions are defined by the Listing Rules as "connected transactions" and are exempt from the reporting, announcement and independent shareholders' approval requirements.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules since the listing of its shares on the SEHK on 29 April 2010.

Audit Committee

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the Code on Corporate Governance Practices, and currently comprises three independent non-executive Directors, Mr. Ong Chor Wei (Chairman of Audit Committee), Mr. Bai Xiaoshu and Mr. Deng Xinping. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 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 SEHK and legal requirements, and that adequate disclosures have been made.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 26 to 34 of the 2010 Annual Report.

Auditors

A resolution will be submitted to the 2011 AGM for the re-appointment of PricewaterhouseCoopers as auditors of the Company.

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

Hong Kong, 15 March 2011

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd 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 48 to 117, which comprise the consolidated and company balance sheets as at 31 December 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 year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 March 2011

Consolidated Balance Sheet

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

		As at 31 December	
		2010	2009
	Note(s)	HKD'000	HKD'000
ASSETS			
Non-current assets			
Land use right	6	28,765	28,396
Property, plant and equipment	7	82,260	40,157
Intangible assets	8	710	496
Deferred income tax assets	18	2,911	924
		114,646	69,973
Current assets			
Inventories	10	114,577	56,293
Trade and other receivables	12	270,926	169,508
Pledged bank deposits	13	26,971	–
Term deposits with initial term of over three months	13	382,877	–
Cash and cash equivalents	13	507,812	26,544
		1,303,163	252,345
Total assets		1,417,809	322,318
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital	14	8,331	–
Reserves		1,241,011	188,381
Total equity		1,249,342	188,381

Consolidated Balance Sheet

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

		As at 31 December	
		2010	2009
	Note	**HKD'000**	HKD'000
LIABILITIES			
Current liabilities			
Trade and other payables	17	**143,540**	123,040
Current income tax liabilities		**24,927**	10,897
		168,467	133,937
Total liabilities		**168,467**	133,937
Total equity and liabilities		**1,417,809**	322,318
Net current assets		**1,134,696**	118,408
Total assets less current liabilities		**1,249,342**	188,381

The notes on pages 55 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 48 to 54 were approved by the Board of Directors on 15 March 2011 and were signed on its behalf.

Na Qinglin
Director

Xue Yahong
Director

Balance Sheet

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

	Note(s)	As at 31 December 2010 HKD'000	2009 HKD'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**442,669**	–
		442,669	–
Current assets			
Trade and other receivables	12	**76,992**	–
Term deposits with initial term of over three months	13	**195,000**	–
Cash and cash equivalents	13	**360,134**	–
		632,126	–
Total assets		**1,074,795**	–
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital	14	**8,331**	–
Reserves		**1,054,650**	–
Total equity		**1,062,981**	–
LIABILITIES			
Current liabilities			
Trade and other payables	17	**11,814**	–
Total liabilities		**11,814**	–
Total equity and liabilities		**1,074,795**	–
Net current assets		**620,312**	–
Total assets less current liabilities		**1,062,981**	–

The notes on pages 55 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 48 to 54 were approved by the Board of Directors on 15 March 2011 and were signed on its behalf.

Na Qinglin
Director

Xue Yahong
Director

Consolidated Income Statement

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

		Year ended 31 December	
		2010	2009
	Note(s)	**HKD'000**	HKD'000
Revenue	19	**660,577**	338,385
Cost of sales	20	**(322,761)**	(185,137)
Gross profit		**337,816**	153,248
Other gains – net	19	**1,125**	2,065
Selling and marketing costs	20	**(33,035)**	(17,436)
Research and development expenses	20	**(31,828)**	(16,875)
Administrative expenses	20	**(67,305)**	(31,445)
Operating profit		**206,773**	89,557
Finance income	22	**4,648**	44
Finance costs	22	**(7,692)**	(1,094)
Finance costs – net	22	**(3,044)**	(1,050)
Profit before income tax		**203,729**	88,507
Income tax expenses	23	**(22,120)**	(9,347)
Profit for the year		**181,609**	79,160
Profit attributable to:			
Equity holders of the Company		**181,609**	79,160
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	26	**0.25**	0.14
– Diluted	26	**0.25**	0.14

The notes on pages 55 to 117 are an integral part of these consolidated financial statements.

		Year ended 31 December	
		2010	2009
	Note	**HKD'000**	HKD'000
Dividend	25	**–**	–

Consolidated Statement of Comprehensive Income

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

	Year ended 31 December	
	2010	2009
	HKD'000	HKD'000
Profit for the year	**181,609**	79,160
Other comprehensive income		
Currency translation differences	**19,524**	(393)
Total comprehensive income for the year	**201,133**	78,767
Total comprehensive income attributable to:		
Equity holders of the Company	**201,133**	78,767

The notes on pages 55 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Attributable to equity holders of the Company				
	Share capital	Share premium	Other reserves (Note 15)	(Accumulated deficits)/Retained earnings (Note 16)	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 year	–	–	–	79,160	79,160
Other comprehensive income					
Currency translation differences	–	–	(393)	–	(393)
Total other comprehensive income	–	–	(393)	–	(393)
Total comprehensive income	–	–	(393)	79,160	78,767
Share option scheme – value of services (Note 30)	–	–	3,656	–	3,656
Deemed contributions from equity holders of the Company	–	–	5,395	–	5,395
Share issuance costs	–	(6,032)	–	–	(6,032)
Balance at 31 December 2009	–	210,674	(55,159)	32,866	188,381
Balance at 1 January 2010	**–**	**210,674**	**(55,159)**	**32,866**	**188,381**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**181,609**	**181,609**
Other comprehensive income					
Currency translation differences	**–**	**–**	**19,524**	**–**	**19,524**
Total other comprehensive income	**–**	**–**	**19,524**	**–**	**19,524**
Total comprehensive income	**–**	**–**	**19,524**	**181,609**	**201,133**
Share option scheme – value of services (Note 30)	**–**	**–**	**11,587**	**–**	**11,587**
Initial public offering of shares (Note 14)	**7,731**	**552,781**	**–**	**–**	**560,512**
Private placement of shares (Note 14)	**600**	**329,400**	**–**	**–**	**330,000**
Share issuance costs	**–**	**(43,962)**	**–**	**–**	**(43,962)**
Effects of change of functional currency (Note 2.5(c))	**–**	**–**	**167**	**1,524**	**1,691**
Balance at 31 December 2010	**8,331**	**1,048,893**	**(23,881)**	**215,999**	**1,249,342**

The notes on pages 55 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

		Year ended 31 December	
		2010	2009
	Note	**HKD'000**	HKD'000
Cash flows from operating activities			
Cash generated from operating activities	27	**85,473**	35,777
Interest paid		**–**	(525)
Income tax paid		**(10,710)**	(144)
Net cash from operating activities		**74,763**	35,108
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(55,315)**	(6,116)
Purchase of intangible assets		**(398)**	(44)
Interest received		**697**	44
Proceeds from disposal of property, plant and equipment		**–**	10
Payments for term deposits with initial term of over three months		**(382,877)**	–
Net cash used in investing activities		**(437,893)**	(6,106)
Cash flows from financing activities			
Proceeds from initial public offering of shares		**560,512**	–
Proceeds from private placement of shares		**330,000**	–
Payments of share issuance costs		**(46,937)**	(2,796)
Repayments of borrowings		**–**	(22,678)
Repayment of amount due to a related party		**(100)**	–
Net cash from/(used in) financing activities		**843,475**	(25,474)
Net increase in cash and cash equivalents		**480,345**	3,528
Cash and cash equivalents at the beginning of the year		**26,544**	22,979
Exchange difference		**923**	37
Cash and cash equivalents at the end of the year		**507,812**	26,544

The notes on pages 55 to 117 are an integral part of these consolidated financial statements.

Notes to the 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 "SEHK") on 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem used in high-speed telecommunications and data communications (the "Listing Business").

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 15 March 2011.

(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 one subscriber share of par value HKD0.01 issued and allotted was transferred to O-Net Cayman;

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) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), '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 years presented, unless otherwise stated.

2.1 Basis of Preparation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in Accounting Policy and Disclosures

(a) New and Amended Standards Adopted by the Group

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

- HKFRS 3 (Revised), 'Business combination', 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 Group has accounted for the transactions occurred during the IPO Reorganization in 2010 with reference to HKFRS 3(Revised).

- HKAS 27 (Revised), 'Consolidated and separate financial statements', requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. HKAS 27 (revised) has had no impact on the consolidated financial statements, as there are no non-controlling interests.

- 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 on the consolidated financial statements arising from this amendment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(a) New and Amended Standards Adopted by the Group *(Continued)*

- HKAS 17 (Amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use right", and amortized over the lease term.

  HKAS 17 (Amendment), 'Leases', has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. Management has reassessed the classification of unexpired land use right as at 1 January 2010 on the basis of information existing at the inception of those leases. Management concluded that the classification of such land use right as operating leases remains appropriate as the leases do not transfer significantly all the risks and rewards of ownership of the land to the Group.

- Second improvements to HKFRS (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year beginning 1 January 2010. The Group has early adopted the amendment to HKFRS 8 'Operating segment' in the financial year beginning 1 January 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'.
- HK(IFRIC) 18, 'Transfers of assets from customers'.
- 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 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
Amendment to HKAS 12, 'Deferred tax: Recovery of underlying assets'	1 January 2012
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 (Revised) 'Business Combinations'	1 January 2011

The directors of the Company are in the process of making an assessment of the impact of these new/revised standards to the consolidated financial statements of the Group.

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 Group uses the acquisition method of accounting to account for business combinations, except for those acquisitions that qualify as business combinations under common control, which are accounted for using merger accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

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 31 December 2010 are set out in Note 9.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Segment Reporting

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

2.5 Foreign Currency Translation

(a) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The Company used to adopt Renminbi Yuan ("RMB") as its functional currency. Following a change of its primary economic environment in response to the change of its business expansion plan in the international market, the functional currency of the Company, together with its immediate wholly owned subsidiary, O-Net BVI, which is also principally engaged in investment holding, was changed to United States Dollars ("USD") with effect from 1 September 2010. The directors of the Company consider USD would be more appropriate to act as the functional currency in reflecting the underlying transactions that are relevant to the Company. This change was applied prospectively.

The functional currency of the subsidiary in the People's Republic of China (the "PRC") is RMB, and the functional currency of subsidiaries outside of the PRC is USD.

The consolidated financial statements of the Group are presented in HKD, which is the Company's presentation currency. The directors of the Company consider that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the readers of the financial statements.

(b) Transactions and Balances

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign Currency Translation *(Continued)*

(c) Group Companies

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates(unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated income statement as part of the gain or loss on sale. In addition, the effects of the change of functional currency of the Company and O-Net BVI upon translation into the presentation currency, amounting to approximately HKD1,691,000, had been included in the consolidated statement of changes in equity.

2.6 Land Use Right

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation and 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 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 Non-financial Assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial Assets

(a) Classification

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial Assets *(Continued)*

(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.

2.12 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 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.

2.16 Trade Payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and Deferred Income Tax

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

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

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

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

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 two share option schemes, one was adopted before the IPO (the "Pre-IPO Share Option Scheme") and another was adopted by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"). 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 30 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 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. For options granted by the Company for services of employees in its subsidiaries, the respective fair value of the grants are accounted for as deemed investment of the Company in these subsidiaries.

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.

(c) Dividend income

Dividend income is recognized when the right to receive payment is established.

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 for the year ended 31 December 2010 (2009 – Nil).

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 to the 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 minimize potential adverse effects on the Group's financial performance.

3.1 Financial Risk Factor

(a) Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from future commercial transactions, recognized assets and liabilities which are denominated in foreign currencies. The majority of the Group's foreign currency transactions and balances are denominated in USD (for entities within the Group using RMB as functional currency), HKD and RMB. Given HKD is pegged with USD, the directors of the Company consider that the related foreign exchange risk is low. The major foreign exchange risk relates to the fluctuation of USD against RMB. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

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 the respective balance sheet dates are as follows:

	As at 31 December	
	2010	2009
	HKD'000	HKD'000
Assets		
RMB (recorded by entities within the Group using USD as functional currency)	**331,394**	–
USD (recorded by entities within the Group using RMB as functional currency)	**94,401**	90,990
HKD	**29,807**	1,495
Japanese Yen ("JPY")	**8,150**	3,202
Euro	**100**	–
Liabilities		
USD (recorded by entities within the Group using RMB as functional currency)	**33,759**	16,664
HKD	**1,676**	7,282
Euro	**–**	17
Japanese Yen ("JPY")	**95**	–

The following table shows the sensitivity analysis of an increase/decrease of 5% in USD against the major foreign currencies at 31 December 2010 and 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.

If there is a 5% increase in USD against RMB at the 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 year ended 31 December	
	2010	2009
	HKD'000	HKD'000
RMB		
Decrease/(increase) in profit before income tax	**13,538**	(3,421)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(a) Foreign Exchange Risk *(Continued)*

If there is a 5% decrease in USD against RMB, 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 year ended 31 December	
	2010	2009
	HKD'000	HKD'000
RMB		
Increase/(decrease) in profit before income tax	**13,538**	(3,421)

(b) Interest Rate Risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets as at 31 December 2010 (2009 – same). Fluctuation of market rates does not have a significant impact to the Group's performance. The Group does not have any interest-bearing liabilities as at 31 December 2010 (2009 – same).

(c) Price Risk

As at 31 December 2010, the Group did not hold equity securities traded publicly. It is not exposed to commodity price risk (2009 – same).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial Risk Factor *(Continued)*

(d) Credit Risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, pledged bank deposits, term deposits with initial term of over three months and trade and other receivables.

The carrying amounts of cash and cash equivalents, pledged bank deposits, term deposits with initial term of over three months and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

For cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months, management manages the credit risk by placing 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 31 December	
	2010	2009
	HKD'000	HKD'000
Balances placed with listed banks in the PRC/Hong Kong	**643,799**	23,101
Balance placed with unlisted bank in the PRC	**273,812**	3,385
	917,611	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 it generally does not require collateral from the customers against the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectation.

(e) Liquidity Risk

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital Risk Management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital risk based on the debt-to-equity ratio. This ratio is calculated by dividing the net debt by the total owners' equity.

The Group did not maintain any debt as at 31 December 2010. The debt-to-equity ratio as at 31 December 2009 is as follows:

	As at 31 December 2009 HKD'000
Financing from a related party (29(d)ii)	33,951
Less: cash and cash equivalents (Note 13)	(26,544)
Net debt	7,407
Total equity	188,381
Debt-to-equity ratio	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 31 December 2010, the Group did not have any assets or liabilities that were subsequently measured at fair value (2009 – same).

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

4.1 PRC Enterprise Income Tax and Deferred Taxation

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

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers 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 by making an assessment on the recoverability of trade and other receivables, with reference made to the magnitude and expected duration of recovery of the outstanding amounts. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

4.3 Write-downs of Inventories to Net Realizable Value

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

4.4 Recognition of Share-based Compensation Expenses

As mentioned in Note 30, the Group had granted share options to its employees and directors under the Post-IPO Share Option Scheme during the year ended 31 December 2010. 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 30).

The fair value of options granted during the year ended 31 December 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 31 December 2010, the Expected Retention Rate was assessed to be 88%.

If the Expected Retention Rate had been increased by 5 percentage points to 93%, the amount of share-based compensation expenses charged to the consolidated income statement for the year ended 31 December 2010 would be increased by approximately HKD522,000.

5 SEGMENT REPORTING – GROUP

The chief operating decision-maker (“CODM”) 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.

Due to the fact that the Group continued to diversify its product ranges, starting from the second half of 2010, the senior executive management team no longer review and assess the performance of each individual product or a particular category of products. Instead, they assess performance and allocate resources according to the total revenues derived from each customer. Gross/net profits and costs are managed in aggregate on entity level. not on individual product or customer level. As a result of such a change, the CODM considers that the Group has only one single operating segment and no segment information was disclosed for the year ended 31 December 2010.

All the reported revenues from sales of goods were made to external customers for the year ended 31 December 2010 (2009 – same).

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

	2010 **HKD’000**	2009 HKD’000
The PRC	**312,682**	165,697
Europe	**166,955**	61,025
North America	**57,374**	40,587
Other Asia countries excluding the PRC	**123,566**	71,076
	660,577	338,385

5 SEGMENT REPORTING – GROUP *(Continued)*

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

	2010	2009
	HKD'000	HKD'000
The PRC	**111,575**	68,884
Hong Kong	**160**	165
	111,735	69,049

(c) During the year ended 31 December 2010, revenue derived from sales made to two (2009 – two) single external customers amounted to approximately 33% (2009 – 26%) of the Group's total revenue.

6 LAND USE RIGHT – GROUP

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

	2010	2009
	HKD'000	HKD'000
Outside of Hong Kong		
– Lease of 50 years	**28,765**	28,396

	Land use right
	HKD'000
Year ended 31 December 2009	
Opening net book amount	28,949
Amortization charge	(598)
Exchange difference	45
Closing net book amount	28,396
Year ended 31 December 2010	
Opening net book amount	**28,396**
Amortization charge	**(606)**
Exchange difference	**975**
Closing net book amount	**28,765**

Amortization of land use right is recognized as an expense on a straight-line basis over the unexpired period of the rights. The remaining lease period of land use right as at 31 December 2010 was 46 years.

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Machinery HKD'000	Motor vehicles HKD'000	Furniture, fitting & equipment HKD'000	Construction in progress HKD'000	Total HKD'000
At 1 January 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
Year ended 31 December 2009					
Opening net book amount	8,321	287	29,086	469	38,163
Additions	–	–	10,050	1,242	11,292
Disposal	–	–	(1)	–	(1)
Transfers	–	–	111	(111)	–
Depreciation	(2,162)	(73)	(7,126)	–	(9,361)
Exchange difference	12	1	49	2	64
Closing net book amount	6,171	215	32,169	1,602	40,157
At 31 December 2009					
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
Year ended 31 December 2010					
Opening net book amount	**6,171**	**215**	**32,169**	**1,602**	**40,157**
Additions	**392**	**807**	**43,271**	**9,139**	**53,609**
Transfers	**–**	**–**	**513**	**(513)**	**–**
Depreciation	**(2,142)**	**(151)**	**(11,538)**	**–**	**(13,831)**
Exchange difference	**172**	**23**	**1,873**	**257**	**2,325**
Closing net book amount	**4,593**	**894**	**66,288**	**10,485**	**82,260**
At 31 December 2010					
Cost	**24,929**	**1,670**	**141,361**	**10,485**	**178,445**
Accumulated depreciation	**(20,336)**	**(776)**	**(75,073)**	**–**	**(96,185)**
Net book amount	**4,593**	**894**	**66,288**	**10,485**	**82,260**

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

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

	2010	2009
	HKD'000	HKD'000
Cost of sales	**10,677**	7,011
Selling and marketing costs	**15**	12
Administrative expenses	**1,874**	1,294
Research and development	**1,265**	1,044
	13,831	9,361

(b) For the year ended 31 December 2010, lease rentals amounting to HKD8,368,000 (2009 – HKD5,346,000) for leases of office buildings and plant of the Group, had been included in the consolidated income statement.

8 INTANGIBLE ASSETS – GROUP

	Patent	Computer software	Total
	HKD'000	HKD'000	HKD'000
At 1 January 2009			
Cost	210	527	737
Accumulated amortization	(31)	(119)	(150)
Net book amount	179	408	587
Year ended 31 December 2009			
Opening net book amount	179	408	587
Additions	–	44	44
Amortization charge	(31)	(106)	(137)
Exchange difference	1	1	2
Closing net book amount	149	347	496
At 31 December 2009			
Cost	210	572	782
Accumulated amortization	(61)	(225)	(286)
Net book amount	149	347	496
Year ended 31 December 2010			
Opening net book amount	**149**	**347**	**496**
Additions	**–**	**398**	**398**
Amortization charge	**(30)**	**(171)**	**(201)**
Exchange difference	**1**	**16**	**17**
Closing net book amount	**120**	**590**	**710**
At 31 December 2010			
Cost	**210**	**998**	**1,208**
Accumulated amortization	**(90)**	**(408)**	**(498)**
Net book amount	**120**	**590**	**710**

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

9 INVESTMENT IN SUBSIDIARIES – COMPANY

	2010 HKD'000	2009 HKD'000
Investments in subsidiaries:		
– investments in equity interests – at cost, unlisted	**433,482**	–
– Deemed investment arising from share-based compensation of employees of subsidiaries (Note i)	**9,187**	–
	442,669	–

As at 31 December 2010, the Company had direct or indirect interests in the following subsidiaries:

Name	Date of incorporation	Place of incorporation	Place of operation	Share capital or paid-in capital	Interest held directly	Interest held indirectly	Principal activities
O-Net BVI	6 November 2006	BVI	Hong Kong	USD28,991	100%	-	Investment holding
O-Net Shenzhen	23 October 2000	Shenzhen, the PRC, limited liability company	Shenzhen, the PRC	HKD300,000,000	-	100%	Design, manufacturing and sales of optical networking products
O-Net Hong Kong	25 September 2000	Hong Kong	Hong Kong	HKD1,000,000	-	100%	Sales of optical networking products

All the above subsidiaries are limited liability companies.

Note:

(i) The amount represents share-based compensation expenses arising from grant of share options to acquire ordinary shares of the Company to employees of subsidiaries in exchange for their services provided to these subsidiaries.

10 INVENTORIES – GROUP

	2010 HKD'000	2009 HKD'000
Cost:		
Raw materials	59,759	26,748
Work-in-progress	31,644	20,246
Finished goods	24,637	11,776
Less: provision for write-down of inventories to net realizable values	(1,463)	(2,477)
	114,577	56,293

For the year ended 31 December 2010, the cost of inventories recognized as cost of sales, selling and marketing costs, research and development expenses, and administrative expenses amounted to HKD260,694,000 (2009 – HKD147,123,000).

For the year ended 31 December 2010, the Group had written back impairment provision of approximately HKD1,073,000 for inventories which were sold by the Group (2009 – provision of HKD984,000). These amounts had been included as a reduction against the cost of sales in the consolidated income statement.

11 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

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

Group	**Loans and receivables** HKD'000
Assets	
As at 31 December 2010:	
Trade and other receivables excluding prepayments (Note 12)	268,194
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 13)	917,660
Total	1,185,854
As at 31 December 2009:	
Trade and other receivables excluding prepayments (Note 12)	168,171
Cash and cash equivalents, pledged bank deposits and term deposits with initial term of over three months (Note 13)	26,544
Total	194,715

11 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(Continued)

Group	**Other financial liabilities** HKD'000
Liabilities	
As at 31 December 2010:	
Trade and other payables excluding statutory liabilities (Note 17)	**129,129**
As at 31 December 2009:	
Trade and other payables excluding statutory liabilities (Note 17)	115,109

Company	**Loans and receivables** HKD'000
Assets	
As at 31 December 2010:	
Trade and other receivables excluding prepayments (Note 12)	**76,992**
Cash and cash equivalents and term deposits with initial term of over three months (Note 13)	**555,134**
Total	**632,126**
As at 31 December 2009:	–

Company	**Other financial liabilities** HKD'000
Liabilities	
As at 31 December 2010:	
Trade and other payables excluding statutory liabilities (Note 17)	**11,814**
Total	**11,814**
As at 31 December 2009:	–

12 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	HKD'000	HKD'000	**HKD'000**	HKD'000
Trade receivables (Note a)	**222,093**	132,249	**–**	–
Less: provision for impairment of receivables (Note b)	**(1,770)**	(1,622)	**–**	–
Trade receivables – net	**220,323**	130,627	**–**	–
Amounts due from related parties (Note 29(d))	**588**	997	**–**	–
Amounts due from subsidiaries	**–**	–	**74,419**	–
Bills receivables (Note c)	**39,902**	35,207	**–**	–
Prepayments	**2,732**	1,337	**–**	–
Interest receivables	**3,984**	–	**2,550**	–
Other receivables	**3,397**	1,340	**23**	–
	270,926	169,508	**76,992**	–

As at 31 December 2010, the fair value of trade and other receivables of the Group and the Company approximated their carrying amounts (2009 – same).

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

Note:

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

	Group		Company	
	2010	2009	**2010**	2009
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**131,941**	89,030	**–**	–
USD	**129,404**	75,883	**2,550**	–
HKD	**1,431**	1,393	**74,442**	–
JPY	**8,150**	3,202	**–**	–
	270,926	169,508	**76,992**	–

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

Trade receivables	Group	
	2010	2009
	HKD'000	HKD'000
Within 30 days	**93,426**	50,550
31 to 60 days	**58,083**	36,258
61 to 90 days	**27,014**	23,681
91 to 180 days	**32,371**	17,821
181 to 365 days	**9,179**	1,163
Over 365 days	**2,020**	2,776
	222,093	132,249

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

As at 31 December 2010, trade receivables of HKD61,262,000 (2009 – HKD37,641,000) were past due but not impaired. They relate to a number of independent customers that have good reputation and good trading and settlement history maintained with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances since there has not been a significant change in their credit quality and the balances are considered fully recoverable. The aging analysis of these past due trade receivables is as follows:

	Group	
	2010	2009
	HKD'000	HKD'000
Past due 1 to 90 days	**48,815**	33,043
Past due 91 to 180 days	**9,904**	2,461
Past due 181 to 365 days	**2,254**	1,554
Past due over 365 days	**289**	583
	61,262	37,641

As at 31 December 2010, trade receivables of HKD1,770,000 (2009 – HKD1,622,000) were impaired. All these balances had been fully provided for impairment losses. The aging of these trade receivables is as follows:

	Group	
	2010	2009
	HKD'000	HKD'000
Past due 90 to 180 days	**1**	–
Past due 181 to 365 days	**52**	–
Past due over 365 days	**1,717**	1,622
	1,770	1,622

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

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

	Group	
	2010	2009
	HKD'000	HKD'000
Opening balance	**1,622**	1,671
Provision for/(write-back of) impairment	**94**	(52)
Exchange difference	**54**	3
Closing balance	**1,770**	1,622

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

Bills receivables	Group	
	2010	2009
	HKD'000	HKD'000
Within 30 days	**10,548**	10,552
31 to 90 days	**8,656**	11,468
91 to 180 days	**20,698**	13,187
	39,902	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.

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

	Group		Company	
	2010	2009	**2010**	2009
	HKD'000	HKD'000	**HKD'000**	HKD'000
Cash and cash equivalents	**507,812**	26,544	**360,134**	–
Term deposits with initial term of over three months	**382,877**	–	**195,000**	–
Pledged bank deposits (Note a)	**26,971**	–	**–**	–
	917,660	26,544	**555,134**	–

Note a: The pledged bank deposits had been pledged as performance guarantee for contractors and suppliers for the construction of the new factory facilities of the Group in Shenzhen.

Cash and cash equivalents, term deposits with initial term of over three months and pledged bank deposits are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**634,375**	11,335	**331,394**	–
USD	**254,809**	15,107	**218,593**	–
HKD	**28,376**	102	**5,147**	–
EUR	**100**	–	**–**	–
	917,660	26,544	**555,134**	–

Cash at bank earned interest at floating rate.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate for the term deposits of the Group with initial term of over three months as at 31 December 2010 was 2.88%.

The directors consider that the carrying value of these deposits approximates their fair value as at 31 December 2010 (2009 – same). These term deposits with initial term of over three months were neither past due nor impaired as at 31 December 2010.

14 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

Group and Company:

	Authorized share capital – ordinary shares of par value of HKD0.01 each	
	Number of shares	HKD
Upon incorporation of the Company on 12 November 2009 (Note a)	39,000,000	390,000
Increase in authorized share capital on 9 April 2010 (Note c)	9,961,000,000	99,610,000
As at 31 December 2010	10,000,000,000	100,000,000

	Issued and fully paid up – ordinary shares of par value of HKD0.01 each		Share premium
	Number of shares	HKD'000	HKD'000
Issued on 12 November 2009 (Note a)	1	–	–
Issued on 22 February 2010 (Note b)	9,999	–	218,376
Issued upon the IPO (Note d)	193,280,000	1,933	510,847
Capitalization of share premium (Note e)	579,805,240	5,798	(5,798)
Issued under a private placement on 15 November 2010 (Note f)	60,000,000	600	325,468
As at 31 December 2010	833,095,240	8,331	1,048,893

14 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY *(Continued)*

Note:

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 one subscriber share of par value of HKD0.01 was issued and allotted to O-Net Cayman.

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

c On 9 April 2010, the shareholders of the Company passed a resolution to increase the authorized share capital of the Company from HKD390,000 to HKD100,000,000 by the creation of 9,961,000,000 additional ordinary shares at a par value of HKD0.01.

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 the IPO were approximately HKD512,780,000, after deduction of total share issuance costs at approximately HKD47,732,000.

e Immediately after the completion of the New Issue, share premium arising from the IPO amounting to approximately HKD5,798,000 was capitalized and applied, as paying up in full at par, against 579,805,240 ordinary shares issued to the then shareholders whose names appeared on the Company's register of members as at the close of business on 13 April 2010.

f On 15 November 2010, the Company issued 60,000,000 shares of HKD0.01 each to certain institutional investors at the price of HKD5.50 per share. The net proceeds from the issuance were approximately HKD326,068,000, after deduction of total share issuance costs at approximately HKD3,932,000.

15 OTHER RESERVES – GROUP AND COMPANY

Group:

	Share-based compensation	Capital reserve arising from Reorganization	Currency translation reserve	Total
	HKD'000	HKD'000 (Note a)	HKD'000	HKD'000
Balance at 1 January 2009	17,980	(90,816)	9,019	(63,817)
Share option scheme – value of services (Note 30)	3,656	–	–	3,656
Deemed contributions from intermediate holding company (Note b)	–	5,395	–	5,395
Currency translation differences	–	–	(393)	(393)
Balance at 31 December 2009	21,636	(85,421)	8,626	(55,159)
Balance at 1 January 2010	**21,636**	**(85,421)**	**8,626**	**(55,159)**
Share option scheme – value of services (Note 30)	**11,587**	**–**	**–**	**11,587**
Currency translation differences	**–**	**–**	**19,524**	**19,524**
Effects of change of functional currency	**–**	**–**	**167**	**167**
Balance at 31 December 2010	**33,223**	**(85,421)**	**28,317**	**(23,881)**

Note:

a The share capital and share premium in the consolidated financial statements as at 31 December 2010 reflect the share capital and share premium of the Company as if it had always been issued (2009 – same). The difference between the capital reserve of the consolidated financial statements of the Listing Business (explained in Note 1) and the share capital and share premium of the Company was presented as capital reserve arising from Reorganization.

b On 30 September 2009, O-Net Shenzhen and O-Net Hong Kong entered into agreements with several related parties which are controlled by the Controlling Shareholders. These related parties agreed to waive their net current account balances, in an aggregate amount of HKD5,395,000, due from O-Net Shenzhen and O-Net Hong Kong at no consideration. Such waivers were accounted for as deemed contributions made by the Controlling Shareholders into the Group.

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

Company:

	Share-based compensation HKD'000	Currency translation reserve HKD'000	Total HKD'000
Balance at 1 January 2009 and 31 December 2009	–	–	–
Balance at 1 January 2010	**–**	**–**	**–**
Share option scheme – value of services (Note 30)	**9,191**	**–**	**9,191**
Currency translation differences	**–**	**3,080**	**3,080**
Balance at 31 December 2010	**9,191**	**3,080**	**12,271**

16 RETAINED EARNINGS/(ACCUMULATED DEFICITS) – GROUP AND COMPANY

	Group HKD'000	Company HKD'000
At 1 January 2009	(46,294)	–
Profit for the year	79,160	–
Balance at 31 December 2009	32,866	–
Balance at 1 January 2010	**32,866**	**–**
Profit/(loss) for the year	**181,609**	**(6,514)**
Effect of change of functional currency	**1,524**	**–**
Balance at 31 December 2010	**215,999**	**(6,514)**

17 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	HKD'000	HKD'000	**HKD'000**	HKD'000
Trade payables (Note a)	**118,208**	68,890	**–**	
Amount due to related parties (Note 29(d))	**–**	33,951	**–**	–
Amount due to subsidiaries	**–**	–	**11,341**	–
Accrued expenses	**10,604**	10,746	**473**	–
Payroll payable	**9,021**	6,604	**–**	–
Other payables	**317**	1,522	**–**	–
Advances from customers	**563**	177	**–**	–
Other taxes payable	**4,827**	1,150	**–**	–
	143,540	123,040	**11,814**	–

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

Note:

a The ageing analysis of trade payables is as follows:

	Group	
	2010	2009
	HKD'000	HKD'000
Within 30 days	**45,306**	27,548
31 days to 60 days	**21,692**	12,183
61 days to 180 days	**42,503**	23,788
181 days to 365 days	**5,101**	2,298
Over 365 days	**3,606**	3,073
	118,208	68,890

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

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

	Group		Company	
	2010	2009	**2010**	2009
	HKD'000	HKD'000	**HKD'000**	HKD'000
RMB	**107,839**	99,077	**11,341**	–
USD	**33,930**	16,664	**–**	–
HKD	**1,676**	7,282	**473**	–
Euro	**–**	17	**–**	–
JPY	**95**	–	**–**	–
	143,540	123,040	**11,814**	–

18 DEFERRED INCOME TAX – GROUP

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

	2010	2009
	HKD'000	HKD'000
Deferred income tax assets:		
– to be recovered within 12 months	**2,516**	503
– to be recovered after more than 12 months	**395**	421
	2,911	924
Deferred income tax liabilities:	**–**	–

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

	2010	2009
	HKD'000	HKD'000
Deferred tax assets:		
Beginning of the year	**924**	737
Charged to the consolidated income statement (Note 23)	**1,932**	187
Exchange difference	**55**	–
End of the year	**2,911**	924

18 DEFERRED INCOME TAX – GROUP *(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	**(38)**	**(58)**	**943**	**1,085**	**1,932**
Exchange difference	**(4)**	**(5)**	**64**	**–**	**55**
At 31 December 2010	**434**	**374**	**1,007**	**1,096**	**2,911**
At 1 January 2009	337	333	56	11	737
Credited/(charged) to the consolidated income statement	139	104	(56)	–	187
Exchange difference	–	–	–	–	–
At 31 December 2009	476	437	–	11	924

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

There were no significant unrecognized deferred tax assets as at 31 December 2010 (2009 – same).

As at 31 December 2010, deferred income tax liabilities of approximately HKD22,138,000 (2009: HKD2,780,000) had not been recognized for withholding tax that would be payable on the unremitted earnings of approximately HKD221 million (2009: HKD28 million) of the PRC subsidiary. The directors of the PRC subsidiary had resolved not to distribute these earnings in the foreseeable future.

No deferred income tax assets and liabilities had been offset during the year ended 31 December 2010 (2009 – same).

19 REVENUE AND OTHER GAINS – NET – GROUP

Revenue consists of sales of optic networking subcomponents, components, modules and subsystems. Revenue and other gains recognised during the years ended 31 December 2010 and 2009 are as follows:

	2010 HKD'000	2009 HKD'000
Revenue		
Sales of goods	**660,577**	338,385
Other gains – net		
Government grants (Note a)	**351**	2,306
Gain/(loss) arising from sales of scrapped or surplus raw materials	**928**	(266)
(Loss)/gain on disposal of property, plant and equipment, net	**–**	9
Others	**(154)**	16
	1,125	2,065
Total	**661,702**	340,450

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

20 EXPENSES BY NATURE – GROUP

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

	2010 HKD'000	2009 HKD'000
Staff costs – excluding share options granted to directors and employees	**106,526**	58,770
Share option expenses		
– For options granted to sales distributors	**367**	954
– For options granted to directors and employees (Note 21)	**11,220**	2,702
Raw materials consumed	**284,953**	148,909
Changes in inventories of finished goods and work in progress (Note 10)	**(24,259)**	(1,786)
Depreciation (Note 7)	**13,831**	9,361
Amortization (Notes 6, 8)	**807**	735
Provision for/(write back of) impairment provision for doubtful receivables (Note 12)	**94**	(52)
(Write back of)/provision for inventories provision (Note 10)	**(1,073)**	984
Sales commissions	**19,616**	8,971
Utilities charges	**13,286**	7,639
Operating lease rental (Note 7)	**8,368**	5,346
Freight charges	**4,452**	2,043
Auditors' remuneration	**2,298**	137
Professional expenses	**5,407**	2,465
Travelling expenses	**2,059**	1,282
Advertising costs	**859**	606
Others	**6,118**	1,827
	454,929	250,893

21 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS – GROUP

	2010 HKD'000	2009 HKD'000
Salaries, bonus and other welfares	**99,311**	53,661
Pension – defined contribution plans (a)	**7,215**	5,109
Share options granted to directors and employees (Note 20)	**11,220**	2,702
	117,746	61,472

Note:

a Pensions – Defined Contribution Plans

The Group participates in defined contribution retirement benefit plans organized by the local government in the PRC. For the years ended 31 December 2010 and 2009, the Group was required to make monthly defined contributions to these plans based on certain percentage of the basic salary of employees. It is the local government's responsibility to pay the retirement pension to those staff who retired.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of each employee's relevant aggregate income.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

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

b Directors' Emoluments

The remuneration of each director of the Company for the year ended 31 December 2010 is set out below:

Name of director	Fees	Salary	Share options granted	Other benefits and allowance	Pension scheme contribution	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Mr. Na Qinglin	872	390	1,939	422	24	3,647
Mr. Xue Yahong	560	370	126	119	38	1,213
Mr. Chen Zhujiang	95	–	–	–	–	95
Mr. Huang Bin	95	–	1,222	–	–	1,317
Mr. Tan Man Chi	95	–	–	–	–	95
Mr. Deng Xinping (Note i)	191	–	184	–	–	375
Mr. Bai Xiaoshu (Note i)	191	–	184	–	–	375
Mr. Ong Chor Wei (Note i)	191	–	184	–	–	375
	2,290	760	3,839	541	62	7,492

Note i Appointed during the year ended 31 December 2010.

The remuneration of each director of the Company for the year ended 31 December 2009 is set out below:

Name of director	Fees	Salary	Share options granted	Other benefits and allowance	Pension scheme contribution	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Mr. Na Qinglin	23	970	–	74	–	1,067
Mr. Xue Yahong	23	757	66	40	23	909
Mr. Chen Zhujiang	23	–	–	–	–	23
Mr. Huang Bin	23	–	1,074	–	–	1,097
Mr. Tan Man Chi	23	–	–	–	–	23
	115	1,727	1,140	114	23	3,119

21 STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS – GROUP

(Continued)

c Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include three directors for the year ended 31 December 2010 (2009 – three), whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining two (2009 – two) individuals are as follows:

	2010	2009
	HKD'000	HKD'000
Basic salaries	**1,895**	1,108
Pension costs	**24**	40
Bonus	**438**	84
Share option expense	**449**	1,046
	2,806	2,278

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

	2010	2009
Emolument bands		
Nil – HKD1,000,000	**1**	1
HKD1,000,001 – HKD1,500,000	**2**	4
HKD1,500,001 – HKD2,000,000	**1**	–
HKD2,000,001 – HKD4,000,000	**1**	–
	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 year ended 31 December 2010 (2009 – same).

22 FINANCE COSTS – NET – GROUP

	2010 HKD'000	2009 HKD'000
Finance income		
– Interest income derived from bank deposits	**(4,648)**	(44)
Finance costs		
– Interest expenses on bank borrowings	**–**	525
– Exchange loss	**7,692**	569
Finance costs – net	**3,044**	1,050

23 INCOME TAX EXPENSES – GROUP

	2010 HKD'000	2009 HKD'000
Current income tax		
– Hong Kong profits tax (Note b)	**–**	145
– PRC corporate income tax (Note c)	**24,052**	9,389
Total current income tax	**24,052**	9,534
Deferred income tax (Note 18)	**(1,932)**	(187)
Income tax expenses	**22,120**	9,347

Note:

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 year ended 31 December 2010 (2009 – same).

23 INCOME TAX EXPENSES – GROUP *(Continued)*

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

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

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

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

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 for the year ended 31 December 2010 is 11% (being 50% of the enacted EIT rate for 2010) (2009 – 10%).

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.

23 INCOME TAX EXPENSES – GROUP *(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:

	2010 **HKD'000**	2009 HKD'000
Profit before income tax	**203,729**	88,507
Tax calculated at statutory tax rates applicable to entities comprising the Group	**44,820**	17,649
Tax effect of:		
Preferential tax concession	**(25,345)**	(8,768)
Expenses not deductible for tax purposes	**2,645**	466
Income tax expenses	**22,120**	9,347

24 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statement of the Company to the extent of HKD6,514,000 (2009 – nil).

25 DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the year ended 31 December 2010.

26 EARNINGS PER SHARE – GROUP

(a) Basic

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

	2010	2009
Profit attributable to equity holders of the Company (HKD'000)	**181,609**	79,160
Weighted average number of ordinary shares in issue (thousands)	**720,144**	579,815
Basic EPS (HKD per share)	**0.25**	0.14

26 EARNINGS PER SHARE – GROUP *(Continued)*

(a) Basic *(Continued)*

The weighted average number of ordinary shares in issue during 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) (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).

	2010	2009
Profit attributable to equity holders of the Company (HKD'000)	**181,609**	79,160
Weighted average number of ordinary shares in issue (thousands shares)	**720,144**	579,815
Adjustments for share options (thousands shares)	**–**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**720,144**	579,815
Diluted EPS (HKD per share)	**0.25**	0.14

27 CASH GENERATED FROM OPERATIONS – GROUP

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

	2010 HKD'000	2009 HKD'000
Profit before income tax	**203,729**	88,507
Adjustments for:		
Depreciation and amortization (Notes 6, 7, 8)	**14,638**	10,096
(Write-back of)/provision for inventories provision (Note 10)	**(1,073)**	984
Provision for/(write back of) impairment provision for doubtful receivables (Note 12)	**94**	(52)
Loss/(gain) on disposal of property, plant and equipment	**–**	(9)
Interest income (Note 22)	**(4,648)**	(44)
Interest expenses (Note 22)	**–**	525
Share options granted to sales distributors, directors and employees (Note 20)	**11,587**	3,656
Changes in working capital:		
– Inventories	**(57,270)**	(10,843)
– Trade and other receivables	**(110,598)**	(84,534)
– Trade and other payables	**55,985**	27,491
– Increase in pledged bank deposits	**(26,971)**	–
Cash generated from operating activities	**85,473**	35,777

Non-cash transactions

During the year ended 31 December 2010, the Group settled an outstanding payable balance of approximately HKD33,851,000 (Note 29(d)ii) to Shenzhen Kaifa Technology Co., Ltd, the holding company of a shareholder by using endorsed bank acceptance notes received by the Group from its suppliers. All the notes had reached maturity as at 31 December 2010.

28 COMMITMENTS – GROUP

Operating Leases Commitments

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

	2010 HKD'000	2009 HKD'000
Not later than one year	7,280	3,580

Capital Commitments

	2010 HKD'000	2009 HKD'000
Capital expenditure contracted for but not provided	182,800	–
Capital expenditure authorized but not contracted	102,002	–

29 RELATED PARTY TRANSACTIONS – GROUP

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
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., Co.	Controlled by key management personnel of the Company
Butterfly Technology (Shenzhen) Ltd., Co.	Controlled by key management personnel of the Company
Mandarin VP(HK) Ltd., Co.	Controlled by key management personnel of the Company

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

29 RELATED PARTY TRANSACTIONS – GROUP *(Continued)*

(b) Transactions with Related Parties

The Group had following significant transactions with related parties during 2010 and 2009:

Non-recurring transactions

	2010	2009
	HKD'000	HKD'000
Purchases of materials		
O-Net Crystal Technology (Shenzhen) Limited	**–**	1,009
Shenzhen Kaifa Technology Co., Ltd	**–**	31
	–	1,040
Purchases of fixed assets		
Butterfly Technology (Shenzhen) Ltd., Co.	**102**	–
Shenzhen Kaifa Technology Co., Ltd	**71**	–
	173	–

In the opinion of the directors of the Company, the above transactions were conducted in the normal course of business at terms as agreed with the related parties.

29 RELATED PARTY TRANSACTIONS – GROUP *(Continued)*

(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:

	2010 HKD'000	2009 HKD'000
Salaries, bonus and other welfares	6,503	3,825
Pension – defined contribution plans	100	62
Share option expenses	1,262	2,361
	7,865	6,248

(d) **Balances with Related Parties**

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

	2010 HKD'000	2009 HKD'000
Other receivables (Note i)		
Butterfly Technology (Hong Kong) Ltd., Co.	–	936
Mandarin VP (HK) Ltd., Co.	–	1
Shenzhen Kaifa Technology Co., Ltd (Note g)	–	60
	–	997

	2010 HKD'000	2009 HKD'000
Other payables		
Shenzhen Kaifa Technology Co., Ltd (Note ii)	–	33,951

Note:

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

ii The balance was interest free and unsecured and it was repayable on demand. During the year ended 31 December 2010, the Group settled the outstanding balance by using endorsed bank acceptance notes amounting to approximately HKD33,851,000 (Note 27). The remaining balance was settled by cash.

30 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 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 was 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.

30 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 year ended 31 December 2010 and 2009 are as below:

(i) Movement of number of share options granted under the Pre-IPO Share Option Scheme outstanding during the years ended 31 December 2010 and 2009 are as follows:

	2010	2009
Beginning of the year	**2,556,439**	2,601,241
Granted	**–**	34,586
Exercised	**(569,854)**	–
Expired	**–**	(74,718)
Forfeited	**(2,802)**	(4,670)
End of the year	**1,983,783**	2,556,439

As at 31 December 2010, 808,629 share options granted under the Pre-IPO Share Option Scheme were exercisable (2009 – 679,089).

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

	2010	2009	**Expiry date**
Number of share options granted to			
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	

30 SHARE OPTION SCHEME *(Continued)*

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

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

(b) Post-IPO Share Option Scheme

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

The exercise price was determined by the directors of the Company at the higher of (i) the closing price of the share as stated in the SEHK'S daily quotations sheet on the date of grant; (ii) the average closing price per share as stated in the SEHK'S daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of HKD0.01 per share. The exercise price so determined was HKD3.128 per share option.

The total number of shares granted under the scheme up to 31 December 2010 was 30,648,000 options (each option shall entitle the holder 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 Tranches 1, 2 & 3, respectively.

Details for the three tranches are as follows:

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 will lapse until 8 April 2020.

30 SHARE OPTION SCHEME *(Continued)*

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

The details of the options granted under Post-IPO Share Options Scheme during the year ended 31 December 2010 are as below:

(i) Movement of number of share options outstanding during the year ended 31 December 2010 is as follows:

	2010
Beginning of the year	–
Granted	30,648,000
End of the year	30,648,000

As at 31 December 2010, none of the options granted 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

The fair value of options granted during 2010 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD3.128, volatility of 61.12%, dividend yield of 1.5%, expected option life of 10 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 2.421%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

30 SHARE OPTION SCHEME *(Continued)*

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

(iii) Share options granted under the Post-IPO Share Option Scheme outstanding as at 31 December 2010 were as follows:

Number of share options granted to	As at 31 December 2010	Expiry date
Directors	**8,000,000**	8 April 2020
Employees	**22,648,000**	8 April 2020
	30,648,000	

Please refer to Note 20 for details of total expense recognized in the consolidated income statement for share options granted.

31 SUBSEQUENT EVENT

On 13 January 2011, the Company granted 16,868,000 additional share options to certain employees and directors under the Post-IPO Share Option Scheme. The exercise price was determined by the directors of the Company under the same method as disclosed in Note 30(b), to be HKD5.374 per share option. Out of the options granted, each one-third of these options shall become exercisable on 13 July 2011, 13 July 2012 and 13 July 2013, respectively. In addition, these options shall lapse after 8 April 2020. The fair value of options granted determined using the Trinomial Model was approximately HKD36,000,000.

Four-Year Financial Summary

Consolidated Information

For the year ended 31 December

	2010	2009	2008	2007
	HKD'000	HKD'000	HKD'000	HKD'000
Profitability and operating data				
Turnover	**660,577**	338,385	284,638	229,703
Gross profit	**337,816**	153,248	106,753	93,989
Selling and marketing costs	**33,035**	17,436	18,836	17,413
Research and development expenses	**31,828**	16,875	21,027	18,258
Administrative expenses	**67,305**	31,445	36,352	32,891
Profit before tax	**203,729**	88,507	24,851	20,831
Profit for the year	**181,609**	79,160	22,997	20,300
Profitability ratios				
Gross profit margin	**51.1%**	45.3%	37.5%	40.9%
Profit before tax margin	**30.8%**	26.2%	8.7%	9.1%
Net profit margin	**27.5%**	23.4%	8.1%	8.8%
Operating ratios				
(as a percentage of revenue)				
Selling and marketing costs	**5.0%**	5.2%	6.6%	7.6%
Research and development expenses	**4.8%**	5.0%	7.4%	7.9%
Administrative expenses	**10.2%**	9.3%	12.8%	14.3%

As at 31 December

	2010	2009	2008	2007
	HKD'000	HKD'000	HKD'000	HKD'000
Assets and liabilities data				
Non-current assets	**114,646**	69,973	68,436	63,017
Current assets	**1,303,163**	252,345	158,126	183,437
Current liabilities	**168,467**	133,937	119,967	168,304
Equity	**1,249,342**	188,381	106,595	78,150