

# O-Net

**Communications (Group) Limited**

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

Interim Report 2014

## Corporate Vision

O-Net's vision is to become a leading high-tech company in various selected market segments through its relentless pursuit of technology innovations and emphasis on product quality.

## O-Net's Mission

To create value for our customers, career for our employees, growth for our suppliers and partners, contribution to the local community and return to our shareholders.

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## CORPORATE INFORMATION

### COMPANY NAME

O-Net Communications (Group) Limited

### FINANCIAL YEAR END

31 December

### PLACE OF INCORPORATION

Cayman Islands

### REGISTERED OFFICE

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

### HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### COMPANY'S WEBSITE

[www.o-netcom.com](http://www.o-netcom.com)

## BOARD OF DIRECTORS

### *Executive Director*

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

### *Non-Executive Directors*

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

### *Independent Non-Executive Directors*

Mr. Deng Xiping  
Mr. Ong Chor Wei  
Mr. Zhao Wei

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## **CORPORATE GOVERNANCE COMMITTEE**

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

## **AUTHORIZED REPRESENTATIVES**

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

## **COMPANY SECRETARY**

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

## **INVESTOR RELATIONS CONTACT**

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

## **LEGAL ADVISORS TO THE COMPANY**

*As to Hong Kong law:*  
Deacons

*As to Chinese law:*  
Global Law Office

*As to Cayman Islands law:*  
Conyers Dill & Pearman

*As to U.S. law:*  
Shearman & Sterling

## **AUDITOR**

PricewaterhouseCoopers

## **PROPERTY VALUER**

Jones Lang LaSalle Corporate Appraisal  
and Advisory Limited

## **STOCK OPTION AND INVESTMENT IN JOINT VENTURE VALUER**

RHL Appraisal Limited

## **PRINCIPAL BANKERS**

*China*  
China Merchants Bank  
China Construction Bank  
China Bohai Bank

*Hong Kong*  
The Hongkong & Shanghai Banking  
Corporation Limited

## **STOCK INFORMATION**

*Place of Listing*  
The Stock Exchange of Hong Kong Limited

*Stock Code*  
0877

*Listing Date*  
29 April 2010

*Issued Share Capital*  
709,066,240 shares (as at this report approval date)

*Board Lot Size*  
1,000 shares

## **CAYMAN ISLANDS SHARE REGISTRAR**

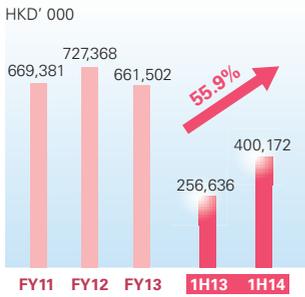
Codan Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## **HONG KONG SHARE REGISTRAR**

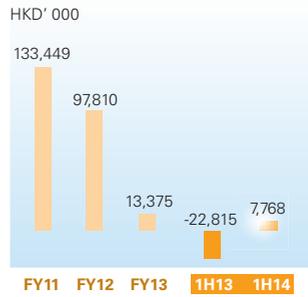
Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

# FINANCIAL HIGHLIGHTS

## Revenue



## Profit Attributable to Equity Holders of the Company



## Gross Profit Margin

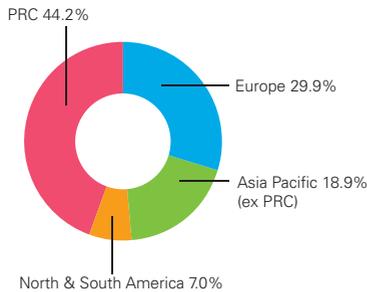


## Net Profit Margin



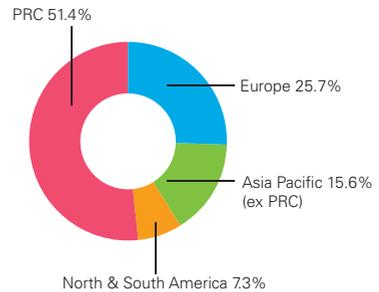
## Revenue by Geographical Segment

1H2014



## Revenue by Geographical Segment

1H2013



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group has focused on the research, development, manufacture and sale of passive optical networking products which include subcomponents, components, modules and subsystems mainly used in broadband and optical networking systems. With its signature strategy “Innovation”, the Group has started research and development (“R&D”) of certain active optical networking products used in the next generation telecommunications and data-communications systems by its USA R&D center. In executing its new strategy “Diversify for Growth”, the Group has identified certain new businesses including automation, coating and touch panels with promising potential. Based on its core proprietary technologies and vertically integrated business model, the Group aims to become a leading diversified high-tech company.

## INDUSTRY REVIEW AND BUSINESS REVIEW

### OPTICAL NETWORKING BUSINESS

Driven by the need to support increasing data traffic and new cloud-based service opportunities, the optical component market had started to recover in second half of 2013, and finally global optical component revenue in 2013 rose by 2.7% to USD6.8 billion. However, while the optical component market contracted 1% sequentially from fourth quarter of 2013 to first quarter of 2014 with a total quarterly revenue of USD1,740 million, it expanded 7% compared to the same period last year. The price negotiated by telecommunication equipment vendors for components was a major contributing factor to the market’s quarterly contraction, with optical component vendors citing price declines. Despite the contraction in the first quarter of 2014, Ovum still expects that the annual growth rate of optical components market will be 8.4% in 2014 and it will reach its historic peak of USD12.3 billion in 2019. This forecast calls for a compound annual growth rate of 10% for 2013 through 2019. As the Group has successfully increased its market share, its optical networking revenue for the reporting period achieved a solid growth at 51.6% over the same period of last year and recorded HKD386.7 million compared to HKD255.2 million during the first half of 2013. Besides, the gross profit margin of the optical networking business increased from 29.6% for the first half of 2013 to 33.4% for the first half of 2014.

### AUTOMATION BUSINESS

China’s automation equipment industry has been developing at a fast pace driven by the enterprise upgrade and regeneration and the progress of migration of the domestic industry from the low-end to the high-end. The Group has successfully identified several industries such as electronic cigarette and has developed and delivered high value-added automation equipment that meet the demand of these industries. Concurrently, the Group has become a leading supplier to the fast-growing electronic cigarette manufacturing industry including providing heating coils and automation equipments to electronic cigarette makers. For the first half of 2014, the Group’s automation business revenue increased from HKD1.5 million for the first half of 2013 to HKD13.4 million for the first half of 2014 and the gross profit margin of the automation business increased from 28.2% for the first half of 2013 to 39.3% for the first half of 2014.

## FINANCIAL REVIEW

### REVENUE

For the first half of 2014, the Group reported revenue of HKD400.2 million, represents an increase of HKD143.6 million, or 55.9%, compared to that of HKD256.6 million for the first half of 2013. The increase in revenue in first half of 2014 was primarily attributable to the increase in the revenue of optical networking business and the new revenue source generated from the automation business.

#### *Optical Networking Business*

Revenue of optical networking business of HKD386.7 million was recorded in the first half of 2014, represents an increase of 51.6% as compared to that of HKD255.2 million in the first half of 2013. The increase in revenue in the first half of 2014 was primarily attributable to the demand for the optical networking products remained at a high level since the second half of 2013.

The Group has managed to gain further market share in the overseas market. Consequently, the revenue of optical networking business from the overseas market increased to HKD223.4 million for the first half of 2014, represents an increase of 79.2% as compared to that of HKD124.7 million in the first half of 2013 and the revenue of optical networking business from the overseas market represented 57.8% of its total optical networking revenue.

In the domestic market, China had launched 4G LTE license and started to set up 4G LTE network in December 2013 which driven the capital expenditures to grow. Consequently, the revenue of optical networking business from domestic market increased by 25.1% and recorded of HKD176.7 million in the first half of 2014, representing 42.2% of its total optical networking revenue.

#### *Automation Business*

For the first half of 2014, the Group's automation business division achieved revenue of HKD13.4 million, representing 3.4% of the Group's total revenues. The revenue of automation division was mainly contributed by selling heating coils to the electronic cigarette makers. The heating coils were produced by the automation equipments developed by the automation business division and recorded of HKD11.9 million while the revenue of HKD1.6 million was recorded by supplying customized automation equipments.

### GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit for the first half of 2014 was HKD134.6 million, representing an increase of HKD58.6 million, or 77.2%, from the gross profit of HKD76.0 million in the first half of 2013. The increase of gross profit was primarily due to increase in revenue and an increase in overall gross profit margin.

Gross profit as a percentage of total revenue, or gross profit margin, increased to 33.6% for the first half of 2014 as compared with 29.6% for the first half of 2013. Both of the gross profit margins of optical networking business and automation business increased to 33.4% and 39.3% respectively for the first half of 2014, from 29.6% and 28.2% respectively in the first half of 2013. The increase in gross profit margin of optical networking business was primarily due to the Group put much more effort in the cost control policy while the increase in gross profit margin of automation business was primarily due to economic of scales. Besides, the production volume for the first half of 2014 was much higher than the first half of 2013 which spreading over the fixed overheads, such as utilities and depreciation of fixed assets, with the large volume and help to improve the overall gross profit margin.

## **OTHER GAINS**

Other gains in the first half of 2014 increased by HKD0.3 million to HKD6.9 million, from HKD6.6 million in the first half of 2013. The increase in other gains was primarily due to the increase in government grants by HKD0.4 million, from HKD6.3 million in the first half of 2013 to HKD6.7 million in the first half of 2014.

## **SELLING AND MARKETING COSTS**

Selling and marketing costs of HKD20.1 million in the first half of 2014 represents an increase of HKD6.7 million, or 50.3%, compared to HKD13.4 million in the first half of 2013. The increase in selling and marketing costs in the first half of 2014 was primarily attributable to the increase of the sales commission, salary costs and other selling related costs. However, selling and marketing costs as a percentage of revenue decreased to 5.0% in the first half of 2014 as compared to 5.2% in the first half of 2013. The decrease was mainly attributable to the increase in revenue was outweigh the increase in the overall selling and marketing costs.

Sales commissions for the first half of 2014 were HKD7.1 million. This represents an increase of HKD2.1 million, or 42.0% from HKD5.0 million in the first half of 2013. The increase was primarily attributable to the increase of overseas sales in the first half of 2014 compared with the first half of 2013 as the Group mainly incurs distributor commissions for overseas sales of optical networking business.

Salary in the first half of 2014 was HKD4.9 million which represents an increase of 40.0% compared with HKD3.5 million in the first half of 2013. This increase was primarily attributable to bolstering our efforts in hiring new staff for the sales team of new business and optical networking business which included adding US and Japan based sales and marketing team for optical networking business to penetrate existing customers as well as develop new customers.

For the other selling related expenses, such as transportation cost and usage of the low consumables, the amounts were HKD2.9 million and HKD1.2 million respectively, which represents an increase of HKD1 million and HKD1.1 million compared with the first half of 2013. These expenses were increased with the sales revenue during the period under review.

## RESEARCH AND DEVELOPMENT EXPENSES

For the first half of 2014, R&D expenses increased by 23.9% to HKD56.2 million, from HKD45.3 million in the first half of 2013. The rise in R&D expenses was mainly due to the increase in salary cost, materials consumed and depreciation of fixed assets in the R&D projects. However, R&D expenses as a percentage of revenues decreased to 14.0% in the first half of 2014 as compared to 17.7% in first half of 2013. The decreased in R&D expenses as a percentage of revenues were mainly due to the increase in revenue was outweigh the increase in the overall R&D expenses.

For the first half of 2014, the salary was HKD22.9 million, an increase of 12.3% as compared to HKD20.4 million in the first half of 2013. The increase was primarily attributable to the increased in hiring of R&D engineers for both Shenzhen and USA R&D center.

Raw material consumed in the R&D projects amounted to HKD18.7 million in the first half of 2014, represents an increase of 22.2% from HKD15.3 million in the first half of 2013. Meanwhile, depreciation of fixed assets in the first half of 2014 amounted to HKD3.7 million, which was an increase of 27.6% given the corresponding figure of HKD2.9 million in the first half of 2013. The increase of raw materials and fixed assets used for R&D projects was primarily attributable to the additional costs used for finalizing the new products of optical networking business and developing new business.

## ADMINISTRATIVE EXPENSES

Administrative expenses in the first half of 2014 were HKD54.9 million, which was 9.1% higher, compared to HKD50.3 million in the first half of 2013. The increase in administrative expenses in the first half of 2014 was primarily attributable to the increase in staff salary and staff welfare even partial offsetted by the decrease in the share option costs. However, administrative expenses as a percentage of revenues decreased to 13.7% in the first half of 2014 as compared to 19.6% in the first half of 2013. The decrease was mainly due to the increase in revenue was outweigh the net effect of increase in administrative expenses.

Salary in the first half of 2014 was HKD20.6 million and, which represents an increase of 19.1% compared with the HKD17.3 million in the first half of 2013. This increase was primarily attributable to hiring new staff for the new business.

Staff welfare in the first half of 2014 was HKD4.4 million, an increase of HKD3.2 million compared with HKD1.2 million in the first half of 2013. The increase was primarily attributable to providing of addition subsidy for staff meals in the canteen of new factory.

The share option cost in the first half of 2014 was HKD2.0 million, a decrease of 52.4% compared with HKD4.2 million in the first half of 2013. The decrease was primarily attributable to most of the share option costs related to the options granted to the administrative staff were already fully amortized in the prior years.

## **FINANCE INCOME**

Net finance income for the first half of 2014 amounted to HKD3.5 million, was a decrease of HKD6.7 million from HKD10.2 million in the first half of 2013. Even the interest income for the first half of 2014 amounted to HKD7.1 million, was increased by HKD2.8 million from HKD4.3 million in the first half of 2013, which was primarily due to the interest income received from an additional fixed deposit during the period, the decrease in net finance income was due to the Group recorded a foreign exchange loss for the first half of 2014 instead of a foreign exchange gain for the first half of 2013. The foreign exchange loss of HKD3.7 million was primarily attributable to the depreciation of RMB in the first half of 2014 as the Group held most of our cash in Renminbi Yuan ("RMB") rather than the functional currency of the Group.

## **SHARE OF RESULT OF AN ASSOCIATE**

Share of result of an associate of HKD2.9 million in the first half of 2014 represents the Group's share of loss of an associate which was brought by the associate's operating expenses. During the first half of 2014, the Group invested in an associate which engaged in R&D of chips. No revenue generated by the associate in the first half of 2014. No such investment was held in the first half of 2013.

## **SHARE OF RESULT OF A JOINT VENTURE**

Share of result of a joint venture ("JV") of HKD1.6 million in the first half of 2014, which represents an increase of HKD1 million compared with HKD0.6 million in the first half of 2013. The increase of Group's share of loss of a JV which was primarily attributable to the Group had shared the JV's operating expenses throughout six months in 2014 rather than shared its operating expenses for nearly a month in the first half of 2013 as the JV had been set up on 4 June 2013. No revenue generated by the JV in the first half of 2013 and 2014.

## **PROFIT BEFORE TAX AND PROFIT BEFORE TAX MARGIN**

Profit before tax of HKD9.3 million was recorded in the first half of 2014 while loss before tax of HKD16.8 million was recorded in the first half of 2013. The profit before tax for the first half of 2014 was primarily due to increase in revenue, gross profit and overall gross profit margin.

The Group recorded profit before tax in the first half of 2014 as compared to loss before tax in the first of 2013. Profit before tax as a percentage of total revenues, namely profit before tax margin, was 2.3% in the first half of 2014 which was primarily due to an increase in gross profit margin as well as a decrease in selling expenses, R&D expenses and administrative expenses as a percentage of revenues as described above.

## **INCOME TAX EXPENSES**

Currently, income tax expenses of the Group consist of Hong Kong profits tax and PRC Enterprise Income Tax ("PRC EIT").

The applicable tax rate for Hong Kong profits is 16.5%. PRC EIT is based on the assessable income of entities within the Group that are incorporated in the PRC, and adjusted for items which are not assessable or deductible for PRC EIT purpose.

Income tax expenses in the first half of 2014 amounted to HKD1.5 million represents a drop of HKD4.5 million or 74.9% from the income tax expense of HKD6.0 million in the first half of 2013. The drop in income tax expenses was primarily due to the written down of deferred tax assets of HKD4.4 million for O-Net Communication (Shenzhen) Limited, a subsidiary located at the PRC during the first half of 2013. There were no deferred tax assets written down during the first half of 2014.

## **PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND NET PROFIT MARGIN**

Profit attributable to equity holders of HKD7.8 million was recorded in the first half of 2014, while loss attributable to equity holders of HKD22.8 million was recorded in the first half of 2013. The profit attributable to equity holders was primarily due to increase in revenue, gross profit and overall gross profit margin.

The Group recorded profit attributable to equity holders in the first half of 2014 in compared to loss attributable to equity holders in the first of 2013. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin was 1.9% in the first half of 2014 which was primarily due to the increase in gross profit margin as well as a decrease in selling expenses, R&D expenses and administrative expenses as a percentage of revenues as described above.

## **NON-GAAP FINANCIAL PERFORMANCE**

### **NON-GAAP PROFIT ANALYSIS**

#### **RECONCILIATION OF NON-GAAP FINANCIAL MEASURES**

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

|  | <b>For the period<br/>ended 30 June</b> |                 |
|--|---|-----------------|
|  | <b>2014<br/>HKD'000</b>                 | 2013<br>HKD'000 |
| <b>Adjustment to measure non-GAAP gross profit</b>                   |   |                 |
| Gross Profit   | <b>134,625</b>                          | 75,979          |
| <b>Adjustment related to cost of sales</b>                           |   |                 |
| Provision for excess and obsolete inventory                          | <b>3,474</b>                            | 3,159           |
| Non-GAAP Gross Profit  | <b>138,099</b>                          | 79,138          |
| <b>Adjustment to measure non-GAAP net profit</b>                     |   |                 |
| Net profit/(loss)  | <b>7,768</b>                            | (22,815)        |
| <b>Adjustment related to cost of sales</b>                           |   |                 |
| Provision for excess and obsolete inventory                          | <b>3,474</b>                            | 3,159           |
| <b>Adjustments to measure to operating expenses</b>                  |   |                 |
| Share options granted to Directors, employees and sales distributors | <b>6,333</b>                            | 6,871           |
| Amortization of intangible assets                                    | <b>372</b>                              | 376             |
| One-time expenses for the relocation of the new factory              | –                                       | 1,755           |
| Write-down of deferred tax assets                                    | –                                       | 4,351           |
| Non-GAAP Net Profit/(Loss)   | <b>17,947</b>                           | (6,303)         |
| Non-GAAP EPS   |   |                 |
| – Basic  | <b>0.03</b>                             | (0.01)          |
| – Diluted  | <b>0.03</b>                             | (0.01)          |
| Gross Profit Margin  | <b>33.6%</b>                            | 29.6%           |
| Non-GAAP Gross Profit Margin   | <b>34.5%</b>                            | 30.8%           |
| Net Profit Margin  | <b>1.9%</b>                             | N/A             |
| Non-GAAP Net Profit Margin   | <b>4.5%</b>                             | N/A             |

Non-GAAP net profit for the first half of 2014 was HKD17.9 million, or HKD0.03 per share, compared to non-GAAP net loss of HKD6.3 million, or HKD0.01 per share, reported for the first half of 2013. Non-GAAP results for the first half of 2014 exclude HKD3.5 million in provision for excess and obsolete inventory, HKD6.3 million in share options granted to Directors and employees expenses and HKD0.4 million in amortization of intangible assets. Non-GAAP results for the first half of 2013 exclude HKD3.2 million in provision for excess and obsolete inventory, HKD6.9 million in share options granted to Directors and employees expenses and HKD0.4 million in amortization of intangible assets, HKD1.8 million in one-time expenses incurred for the relocation to the new factory and HKD4.4 million in write-down of deferred tax assets.

## **FUTURE PROSPECTS**

Looking ahead, the Group will continue to allocate its resources effectively to improve its leading position in the selected industry. In order to better manage our position in the face of uncontrollable business environmental factors, the Group has been actively pursuing a strategy of innovation and diversification. For innovation, the Group has started to develop a series of high-growth next-generation active products for telecommunications and data-communications markets in 2012. And in diversification, the Group is proving successful with the introduction of the automation business in 2013 which will eventually improve the Group's overall profitability and drive the Group's overall business expansion in the coming years.

## **OPTICAL NETWORKING BUSINESS**

With a series of high-growth next-generation active products for telecommunications and data-communications markets set for starting to launch gradually from the second half of 2014, the Group is confident that its optical networking business will continue to grow in the industry globally. The Group will not only sell the active products to its current clientele of equipment vendors but also have a new opportunity to supply intra-data center active products directly to the data center operators such as internet content providers and telecommunications and data-communications carriers. The Group believes that beginning from 2015 the active products recently launched or to be introduced in the future will gradually contribute revenue and will eventually take the Group's core business in optical networking back to a high-growth track. An advantage for the Group is that the telecommunications market continues to be driven by 100GbE demand while data centers continued to be a bright spot so that 40GbE products should also achieve good growth in the data-communications market. In addition, launching 4G LTE in China was a key factor leading the growth of the optical networking business in China. Driven by the optical network transmission upgrade to 100GbE, new cloud-based service opportunities and 4G LTE penetration, the Group's profitability, revenue and business scales will reach higher levels and market share will also be increased as its leading position in the optical networking industry further improves.

## **AUTOMATION BUSINESS**

The Group is committed to develop its automation business where its capability for high precision automation forms a great competitive edge. Actually, the Group's automation business had started to contribute revenue and deliver products to customers in 2013. Now, the Group has become a leading supplier of solutions for the fast-growing electronic cigarette manufacturing industry. The Group has developed automation equipment for producing heating coils and has established supply relationships with several large electronic cigarette makers in China by supplying heating coils. It has further strengthened its leading position by supplying a newly developed automated E-liquid Filling & Assembly Machine to a leading overseas player in the electronic cigarette industry. In addition, the Group is developing another component, micro-controller and next-generation heating coil for the electronic cigarettes which expected to launch in forth quarter of 2014. Besides, the Group has started to develop machine vision solution in 2013 which included machine vision software and automatic visual inspection equipment that using the machine vision software to inspect mobile phone logo or shell coating defects and expected to be launched in the first quarter of 2015. To this end, the Group had further enhanced the R&D and sales and marketing team for the machine vision business during the reporting period. The Group believes the development of automation business and the growth in the electronic cigarette industry shall help to drive the Group's business scale to a higher level and aid its growth for many years to come.

## **NEW BUSINESS**

In addition, leveraging the optical coating and processing technology platform, the Group has successfully designed a coating machine ("AR & AF Coating Machine") with a new coating process executing anti-reflective ("AR") and anti-fingerprint ("AF") coating simultaneously, a breakthrough for any professional coating application. An AR coating is an optical coating applied to the surface of glass or lenses which can commonly apply in the cover glass of smartphones and tablets to reduce reflection which eliminates glare and makes it possible to use the devices under bright lights and direct sunlight while an AF coating is a type of optical coating applied to reduce fingerprint marks. Traditionally, AR and AF coatings process is separately applied. The Group's AR & AF Coating Machine can perform the both coating processes simultaneously which saves cost and time particularly in such a massive production procedure for the cover glass of smartphones and tablets. The Group believes that the coating services business will gradually generate income in the second half of this year and will eventually improve the Group's overall profitability starting from next year.

In conclusion, the Group has invested, and will continue to invest in different business opportunities that are innovative and create substantial new value to its business. Efforts in past few years shall very soon start to bring new energy to the Group's top and bottom lines.

## **GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2014, the Company's issued share capital was approximately HKD7.1 million divided into 709,066,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,347.3 million (31 December 2013: HKD1,374.1 million). The Group had current assets of HKD875.8 million and current liabilities of HKD191.1 million and the current ratio was 4.6 times as at 30 June 2014 (31 December 2013: 4.6 times). The Group's net debt-to-equity ratio (calculated as total borrowing net of cash equivalents over shareholders' equity) and gearing ratio (calculated as total borrowings over shareholders' equity) was not applicable as at 30 June 2014 and 31 December 2013 since the Group did not have any borrowing.

As of 30 June 2014, the Group had cash and cash equivalents of approximately HKD197.6 million (31 December 2013: HKD281.8 million). The significant decrease was due to the repurchase of the shares, investment in associates, deposit to third parties, deposit to trustee of share award scheme and capital expenditure on property, plant and equipment during the period. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

During the period ended 30 June 2014, the Company repurchased and cancelled its own shares at a total consideration of HKD34.5 million by its working capital.

### **PLEDGE ON GROUP ASSETS**

As at 30 June 2014, HKD15.5 million bank deposits were pledged as guarantee for payables due to contractor and suppliers for the construction of the new plants in Shenzhen. The Group has also pledged bank deposits of HKD2.5 million as guarantee for bills payables due to raw material suppliers.

### **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

For the first half of 2014, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 30 June 2014, the Group had contractual capital commitments of approximately HKD93.7 million (31 December 2013: HKD67.4 million). As of 30 June 2014, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

### **CAPITAL EXPENDITURE**

For the first half of 2014, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD35.5 million (30 June 2013: HKD98.5 million).

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE**

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

Given that the management is in the opinion that the foreign exchange and conversion risks are not significant, the Group currently does not have a foreign currency hedging policy. However, the management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The reporting currency of the Group is Hong Kong dollar, as the Directors consider that such presentation is more appropriate for a company to be listed in Hong Kong and for the convenience of the shareholders. The Group maintained certain cash denominated in Hong Kong dollars for paying dividends, if declared.

## **EMPLOYEE BENEFIT**

As at 30 June 2014, the Group had a total of 2,198 employees (30 June 2013: 1,889). The Group's staff costs (including Directors' fees) amounted to HKD127.4 million (30 June 2013: HKD102.1 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice. The Group has provided its employees medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

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

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. For the first half of 2014, options in aggregate of 1,870,000 were granted to 1 Director and 18 employees of the Group (31 December 2013: options in aggregate of 19,550,000 were granted to 41 employees of the Group). The Directors believe that the compensation packages offered by the Group to staff member are competitive in comparison with market standards and practices.

The Company adopted a restricted share award scheme ("Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. For the first half of 2014, 16,055,000 restricted shares were purchased by the trustee from the market for the purpose of the Award Scheme.

The Directors believe that the compensation packages offered by the Group to staff members are competitive in comparison with market standards and practices.

#### **INTERIM DIVIDEND**

The Board resolved not to declare any interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

#### **SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION**

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2014.

#### **FUTURE PLANS FOR MATERIAL INVESTMENTS/CAPITAL ASSETS AND SOURCES OF FUND**

As at 30 June 2014, the Group maintained sufficient funds for the capital investment and operations in the coming year.

#### **MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD**

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

#### **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Other than the share options of the Company held by the Directors under the Post-IPO Share Option Scheme, at no time for the first half of 2014 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2014, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code 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/<br>short position | Number of<br>ordinary<br>shares held | Approximate<br>percentage of<br>the Company's<br>issued share<br>capital |
|-------------------|-------------------------------------|----------------------------------|--------------------------------------|--|
| Mr. Na Qinglin    | Interest of controlled corporations | Long position                    | 243,805,383<br>(Note 1)              | 34.38%   |
| Mr. Tam Man Chi   | Beneficial owner                    | Long position                    | 9,337,480                            | 1.32%  |
| Mr. Deng Xingping | Beneficial owner                    | Long position                    | 500,000<br>(Note 2)                  | 0.07%  |
| Mr. Ong Chor Wei  | Beneficial owner                    | Long position                    | 500,000<br>(Note 2)                  | 0.07%  |
| Mr. Zhao Wei      | Beneficial owner                    | Long position                    | 500,000<br>(Note 2)                  | 0.07%  |

*Notes:*

1. Mr. Na Qinglin ("Mr. Na") is deemed to be interested in (i) 238,573,383 shares of the Company held by O-Net Holdings (BVI) Limited, a company owned as to approximately 51.97% by Mandarin IT Fund I, which is managed by its investment manager, Mandarin VP (BVI) Limited, a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned approximately 75% by Mr. Na; and (ii) 5,232,000 shares of the Company held by Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na. Therefore, Mr. Na is deemed to be interested in these 243,805,383 shares of the Company under the SFO.

2. These shares are derived from the interest in share options granted by the Company pursuant to the share option scheme which was adopted by the Company on 9 April 2010 (the "Post-IPO Share Option Scheme"), details of which are set out in Note 21 to the financial statements.

## INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO

As at 30 June 2014, so far as is known to the Directors and chief executives of the Company, the interest or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO were as follows: –

| Name                                      | Capacity                                 | Long position/<br>Short position | Number of<br>ordinary<br>shares held | Approximate<br>percentage of<br>the Company's<br>issued share<br>capital |
|---|--|----------------------------------|--------------------------------------|--|
| Kaifa Technology (H.K.) Limited           | Beneficial owner                         | Long position                    | 227,636,237                          | 32.10%   |
| Shenzhen Kaifa Technology Co., Ltd.       | Interest of a controlled corporation     | Long position                    | 227,636,237<br>(Note 1)              | 32.10%   |
| Great Wall Technology Company Limited     | Interest of a controlled corporation     | Long position                    | 227,636,237<br>(Note 1)              | 32.10%   |
| O-Net Holdings (BVI) Limited              | Beneficial owner                         | Long position                    | 238,573,383                          | 33.65%   |
| Mandarin IT Fund I                        | Interest of a controlled corporation     | Long position                    | 238,573,383<br>(Notes 2&3)           | 33.65%   |
| HC Capital Limited                        | Interest of a controlled corporation     | Long position                    | 238,573,383<br>(Notes 2&3)           | 33.65%   |
| Hsin Chong International Holdings Limited | Interest of a controlled corporation     | Long position                    | 238,573,383<br>(Notes 2&3)           | 33.65%   |
| Mr. Yeh Meou-Tsen, Geoffery               | Interest of a controlled corporation     | Long position                    | 238,573,383<br>(Notes 2&3)           | 33.65%   |
| Mandarin VP (BVI) Limited                 | Investment manager of Mandarin IT Fund I | Long position                    | 238,573,383<br>(Notes 2&4)           | 33.65%   |
| Mandarin Venture Partners Limited         | Interest of a controlled corporation     | Long position                    | 238,573,383<br>(Notes 2&4)           | 33.65%   |
| Mr. Na Qinglin                            | Interest of controlled corporations      | Long position                    | 243,805,383<br>(Notes 2, 4 and 5)    | 34.38%   |

*Notes:*

1. These 227,636,237 shares are held through Kaifa Technology (H.K.) Limited, a company wholly-owned by Shenzhen Kaifa Technology Co., Ltd., which in turn is a subsidiary of Great Wall Technology Company Limited; therefore, each of Shenzhen Technology Co., Ltd. and Great Wall Technology Company Limited is deemed to be interested in these 227,636,237 shares under the SFO.
2. These 238,573,383 shares are held through O-Net Holdings (BVI) Limited, a company owned as to approximately 51.97% by Mandarin IT Fund I.
3. Mandarin IT Fund I is owned as to 37.25% by HC Capital Limited, an indirect wholly-owned subsidiary of Hsin Chong International Holdings Limited with Mr. Yeh Meou-Tsen, Geoffery as its controlling shareholder; therefore, each of Mandarin IT Fund I, HC Capital Limited, Hsin Chong International Holdings Limited and Mr. Yeh Meou-Tsen, Geoffery is deemed to be interested in 238,573,383 shares held by O-Net Holdings (BVI) Limited under the SFO.
4. Mandarin IT Fund I is managed by its investment manager, Mandarin VP (BVI) Limited, which is a wholly-owned subsidiary of Mandarin Venture Partners Limited, and in turn owned 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 238,573,383 shares held by O-Net Holdings (BVI) Limited under the SFO.
5. Mr. Na is deemed to be interested in 5,232,000 shares of the Company held through Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na.

## SHARE OPTION SCHEMES

Details of the Pre-IPO Share Option Scheme are set out in the Prospectus and Note 21 to the financial statements.

### POST-IPO SHARE OPTION SCHEME

The Company adopted the Post-IPO Share Option Scheme on 9 April 2010. Details of the movements in the Company's share options during the reporting period under the Post-IPO Share Option Scheme are set out below:—

| Name or category       | Date of grant of share options | Exercisable period                          | Exercise price of share options (HKD) | Outstanding at 1 January 2014 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | Outstanding at 30 June 2014 |
|------------------------|--------------------------------|---|---------------------------------------|-------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|
| <b>Directors</b>       |                                |   |                                       |                               |                           |                             |                             |                          |                             |
| Mr. Deng Xinping       | 1 June 2012                    | 2 June 2012 to 8 April 2020<br>(Note 1)     | 1.910                                 | 500,000                       | —                         | —                           | —                           | —                        | 500,000                     |
| Mr. Ong Chor Wei       | 1 June 2012                    | 2 June 2012 to 8 April 2020<br>(Note 1)     | 1.910                                 | 500,000                       | —                         | —                           | —                           | —                        | 500,000                     |
| Mr. Zhao Wei           | 9 April 2014                   | 28 March 2015 to 8 April 2020<br>(Note 14)  | 2.400                                 | —                             | 500,000                   | —                           | —                           | —                        | 500,000                     |
| Sub-total              |                                |   |                                       | 1,000,000                     | 500,000                   | —                           | —                           | —                        | 1,500,000                   |
| <b>Other Employees</b> |                                |   |                                       |                               |                           |                             |                             |                          |                             |
|                        | 10 October 2011                | 10 October 2012 to 8 April 2020<br>(Note 2) | 1.870                                 | 4,000,000                     | —                         | —                           | —                           | —                        | 4,000,000                   |
|                        | 1 June 2012                    | 2 June 2012 to 8 April 2020<br>(Note 1)     | 1.910                                 | 11,601,000                    | —                         | (1,579,000)                 | —                           | (1,083,000)              | 8,939,000                   |
|                        |                                | 2 June 2012 to 8 April 2020<br>(Note 3)     |                                       | 1,810,000                     | —                         | —                           | —                           | (115,000)                | 1,695,000                   |
|                        |                                | 2 June 2013 to 8 April 2020<br>(Note 4)     |                                       | 3,310,000                     | —                         | —                           | —                           | (200,000)                | 3,110,000                   |
|                        |                                | 2 June 2012 to 8 April 2020<br>(Note 5)     |                                       | 9,743,000                     | —                         | —                           | —                           | (558,000)                | 9,185,000                   |

| Name or category | Date of grant of share options | Exercisable period                             | Exercise price of share options (HKD) | Outstanding at 1 January 2014 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | Outstanding at 30 June 2014 |
|------------------|--------------------------------|--|---------------------------------------|-------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|
| Other Employees  | 9 October 2012                 | 9 October 2013 to 8 April 2020<br>(Note 6)     | 1.810                                 | 2,000,000                     | —                         | —                           | —                           | —                        | 2,000,000                   |
|                  | 22 April 2013                  | 12 February 2014 to 8 April 2020<br>(Note 7)   | 1.680                                 | 200,000                       | —                         | —                           | —                           | —                        | 200,000                     |
|                  |                                | 3 March 2014 to 8 April 2020<br>(Note 8)       |                                       | 2,350,000                     | —                         | —                           | —                           | —                        | 2,350,000                   |
|                  |                                | 7 April 2014 to 8 April 2020<br>(Note 9)       |                                       | —                             | —                         | —                           | —                           | —                        | —                           |
|                  | 11 September 2013              | 11 September 2014 to 8 April 2020<br>(Note 10) | 1.708                                 | 2,000,000                     | —                         | —                           | —                           | —                        | 2,000,000                   |
|                  | 25 September 2013              | 13 August 2014 to 8 April 2020<br>(Note 11)    | 1.652                                 | 350,000                       | —                         | —                           | —                           | —                        | 350,000                     |
|                  | 16 October 2013                | 14 October 2014 to 8 April 2020<br>(Note 12)   | 1.628                                 | 4,000,000                     | —                         | —                           | —                           | —                        | 4,000,000                   |
|                  | 8 November 2013                | 8 November 2014 to 8 April 2020<br>(Note 13)   | 1.484                                 | 10,300,000                    | —                         | —                           | —                           | (200,000)                | 10,100,000                  |
|                  | 9 April 2014                   | 28 March 2015 to 8 April 2020<br>(Note 14)     | 2.40                                  | —                             | 1,370,000                 | —                           | —                           | (40,000)                 | 1,330,000                   |
| <b>Total</b>     |                                |  |                                       | <b>52,664,000</b>             | <b>1,870,000</b>          | <b>(1,579,000)</b>          | <b>—</b>                    | <b>(2,196,000)</b>       | <b>50,759,000</b>           |

*Notes:*

1. The vesting period of 40% of the share options was commenced on 2 June 2012, and the remaining 60% of the share options was commenced on 2 June 2013, equally over a period of 3 years.
2. The vesting period was commenced on 10 October 2012, equally over a period of 5 years.
3. The vesting period was commenced on 2 June 2012, equally over a period of 4 years.
4. The vesting period was commenced on 2 June 2013, equally over a period of 3 years.
5. The vesting period of 1/3 of the share options was commenced on 2 June 2012, and the remaining 2/3 of the share options was commenced on 13 July 2012, equally over a period of 2 years.
6. The vesting period was commenced on 9 October 2013, equally over a period of 5 years.
7. The vesting period was commenced on 12 February 2014, equally over a period of 5 years.
8. The vesting period was commenced on 3 March 2014, equally over a period of 5 years.
9. The vesting period was commenced on 7 April 2014, equally over a period of 5 years.
10. The vesting period will commence on 11 September 2014, equally over a period of 5 years.
11. The vesting period will commence on 13 August 2014, equally over a period of 5 years.
12. The vesting period will commence on 14 October 2014, equally over a period of 4 years.
13. The vesting period will commence on 8 November 2014, equally over a period of 5 years.
14. The vesting period commences on 28 March 2015, equally over a period of 5 years.

A total of 52,664,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2014. On 9 April 2014, a total of 1,870,000 share options under the Post-IPO Share Option Scheme were granted to an independent non-executive Director and 18 employees. The closing price per Share immediately before 9 April 2014 (being the date on which share options were granted) was HKD2.40. On 2 May 2014, 1,579,000 share options were exercised into 1,579,000 Shares. 2,196,000 share options were lapsed during the reporting period. Save as aforesaid, no further options were granted, cancelled and lapsed during the six months ended 30 June 2014.

## **RESTRICTED SHARE AWARD SCHEME**

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2014, the Company repurchased 16,383,000 shares of HK\$0.01 each in the capital of the Company at prices ranging from HKD1.74 to HKD2.50 per share on the SEHK. Details of the repurchases are as follows:

| Month/Year   | Number of shares repurchased | Purchase price per share |               | Aggregate purchase consideration (excluding expenses) |
|--------------|------------------------------|--------------------------|---------------|---|
|              |                              | Highest<br>HKD           | Lowest<br>HKD | HKD   |
| January 2014 | 288,000                      | 1.79                     | 1.74          | 507,870   |
| March 2014   | 8,338,000                    | 2.50                     | 2.10          | 19,462,720  |
| April 2014   | 7,757,000                    | 2.40                     | 2.14          | 17,525,740  |
|              | 16,383,000                   |                          |               | 37,496,330  |

During the period, the Company, through the trustee of the Award Scheme, purchased from the market 16,055,000 shares for the purpose of the Award Scheme.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rule Governing the Listing of Securities on the SEHK (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 six months ended 30 June 2014.

## CORPORATE GOVERNANCE PRACTICES

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the six months ended 30 June 2014.

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

During the six months ended 30 June 2014, the Company was in compliance with all code provisions set out in the CG Code except for the deviations as explained below: –

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

Save as those mentioned above, in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the six months ended 30 June 2014.

## **AUDIT COMMITTEE**

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2014 before they are tabled for the Board’s review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 20 August 2014

## CONDENSED CONSOLIDATED INCOME STATEMENT

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

|  |      | (Unaudited)<br>For the six months<br>ended 30 June |                 |
|--|------|--|-----------------|
|  | Note | 2014<br>HKD'000                                    | 2013<br>HKD'000 |
| Revenue  |      | 400,172  | 256,636         |
| Cost of sales  |      | (265,547)  | (180,657)       |
| <b>Gross profit</b>  |      | <b>134,625</b>                                     | 75,979          |
| Other gains – net  |      | 6,938  | 6,626           |
| Selling and marketing costs  |      | (20,131)   | (13,394)        |
| Research and development expenses  |      | (56,185)   | (45,349)        |
| Administrative expenses  |      | (54,857)   | (50,263)        |
| <b>Operating profit/(loss)</b>   |      | <b>10,390</b>                                      | (26,401)        |
| Finance income   | 15   | 3,473  | 10,241          |
| Share of result of an associate  |      | (2,944)  | –               |
| Share of result of a joint venture   |      | (1,634)  | (620)           |
| <b>Profit/(loss) before income tax</b>   | 13   | <b>9,285</b>                                       | (16,780)        |
| Income tax expenses  | 16   | (1,517)  | (6,035)         |
| <b>Profit/(loss) for the period</b>  |      | <b>7,768</b>                                       | (22,815)        |
| <b>Profit/(loss) attributable to:</b>  |      |  |                 |
| Equity holders of the Company  |      | 7,768  | (22,815)        |
| <b>Earnings/(loss) per share for profit/(loss)<br/>attributable to equity holders of the<br/>Company (HKD per share)</b> |      |  |                 |
| – Basic  | 18   | 0.01   | (0.03)          |
| – Diluted  | 18   | 0.01   | (0.03)          |

The notes on pages 32 to 60 are an integral part of these financial statements.

## CONDENSED CONSOLIDATED BALANCE SHEET

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

|  | Note | As at<br>30 June<br>2014<br>(Unaudited)<br>HKD'000 | As at<br>31 December<br>2013<br>(Audited)<br>HKD'000 |
|--|------|--|--|
| <b>ASSETS</b>  |      |  |  |
| <b>Non-current assets</b>  |      |  |  |
| Land use right   |      | 28,586   | 29,119   |
| Property, plant and equipment  |      | 582,111  | 570,894  |
| Other non-current assets   |      | –  | 10,068   |
| Intangible assets  |      | 30   | 155  |
| Interest in an associate   |      | 21,235   | –  |
| Interest in a joint venture  |      | 18,940   | 21,099   |
| Deferred income tax assets   |      | 5,836  | 5,836  |
| Available-for-sale financial assets  |      | 3,440  | 3,440  |
| Derivative financial instruments   |      | 2,451  | 2,451  |
|  |      | <b>662,629</b>                                     | 643,062  |
| <b>Current assets</b>  |      |  |  |
| Inventories  |      | 169,827  | 163,296  |
| Trade and other receivables  | 8    | 424,158  | 317,958  |
| Other current assets   |      | 4,167  | 1,776  |
| Pledged bank deposits  |      | 15,470   | 19,539   |
| Term deposits with initial term of<br>over three months                      |      | 64,630   | 155,662  |
| Cash and cash equivalents  |      | 197,559  | 281,828  |
|  |      | <b>875,811</b>                                     | 940,059  |
| <b>Total assets</b>  |      | <b>1,538,440</b>                                   | 1,583,121  |
| <b>EQUITY</b>  |      |  |  |
| <b>Capital and reserves attributable<br/>to the Company's equity holders</b> |      |  |  |
| Share Capital  |      | 7,091  | 7,239  |
| Reserves   |      | 1,340,249  | 1,366,819  |
| <b>Total equity</b>  |      | <b>1,347,340</b>                                   | 1,374,058  |

|  | <i>Note</i> | <b>As at<br/>30 June<br/>2014<br/>(Unaudited)<br/>HKD'000</b> | As at<br>31 December<br>2013<br>(Audited)<br>HKD'000 |
|--|-------------|---|--|
| <b>LIABILITIES</b>                           |             |   |  |
| <b>Non-current liabilities</b>               |             |   |  |
| Deferred government grants                   |             | –   | 6,118  |
| <b>Current liabilities</b>                   |             |   |  |
| Trade and other payables                     | 11          | <b>187,190</b>  | 199,876  |
| Current income tax liabilities               |             | <b>3,910</b>  | 2,082  |
| Amounts due to related parties               |             | –   | 987  |
|  |             | <b>191,100</b>  | 202,945  |
| <b>Total liabilities</b>                     |             | <b>191,100</b>  | 209,063  |
| <b>Total equity and liabilities</b>          |             | <b>1,538,440</b>  | 1,583,121  |
| <b>Net current assets</b>                    |             | <b>684,711</b>  | 737,114  |
| <b>Total assets less current liabilities</b> |             | <b>1,347,340</b>  | 1,380,176  |

**Na Qinglin**  
*Director*

**Tam Man Chi**  
*Director*

The notes on pages 32 to 60 are an integral part of these financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

|  | <b>(Unaudited)</b><br><b>For the six months</b><br><b>ended 30 June</b> |                 |
|--|---|-----------------|
|  | <b>2014</b><br><b>HKD'000</b>   | 2013<br>HKD'000 |
| <b>Profit/(loss) for the period</b>  | <b>7,768</b>  | (22,815)        |
| <b>Other comprehensive income</b><br><i>Items that may be reclassified to profit or loss</i> |   |                 |
| Currency translation differences   | <b>(6,179)</b>  | 16,919          |
| <b>Total comprehensive income for the period</b>   | <b>1,589</b>  | (5,896)         |
| <b>Total comprehensive income attributable to:</b>   |   |                 |
| Equity holders of the Company  | <b>1,589</b>  | (5,896)         |

The notes on pages 32 to 60 are an integral part of these financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

|   | Unaudited                                     |               |                             |                   | Total equity |
|---|---|---------------|-----------------------------|-------------------|--------------|
|   | Attributable to equity holders of the Company |               |                             |                   |              |
|   | Share capital                                 | Share premium | Other Reserves<br>(Note 10) | Retained earnings |              |
| HKD'000                                 | HKD'000                                       | HKD'000       | HKD'000                     | HKD'000           |              |
| <b>Balance at 1 January 2013</b>        | 7,556   | 893,360       | 65,272                      | 422,483           | 1,388,671    |
| <b>Comprehensive income</b>             |   |               |                             |                   |              |
| Loss for the period                     | –   | –             | –                           | (22,815)          | (22,815)     |
| <b>Other comprehensive income</b>       |   |               |                             |                   |              |
| Currency translation differences        | –   | –             | 16,919                      | –                 | 16,919       |
| Total other comprehensive income        | –   | –             | 16,919                      | –                 | 16,919       |
| <b>Total comprehensive income</b>       | –   | –             | 16,919                      | (22,815)          | (5,896)      |
| Dividend relating to 2012               | –   | –             | –                           | (22,666)          | (22,666)     |
| Repurchase and cancellation of shares   | (146)   | (20,722)      | 146                         | (146)             | (20,868)     |
| Share option scheme – value of services | –   | –             | 6,871                       | –                 | 6,871        |
| <b>Balance at 30 June 2013</b>          | 7,410   | 872,638       | 89,208                      | 376,856           | 1,346,112    |

|   | Unaudited                                     |                |                             |                   |                  |
|---|---|----------------|-----------------------------|-------------------|------------------|
|   | Attributable to equity holders of the Company |                |                             |                   |                  |
|   | Share capital                                 | Share premium  | Other Reserves<br>(Note 10) | Retained earnings | Total equity     |
|   | HKD'000                                       | HKD'000        | HKD'000                     | HKD'000           | HKD'000          |
| <b>Balance at 1 January 2014</b>        | <b>7,239</b>                                  | <b>847,424</b> | <b>106,520</b>              | <b>412,875</b>    | <b>1,374,058</b> |
| <b>Comprehensive income</b>             |   |                |                             |                   |                  |
| Profit for the period                   | –   | –              | –                           | 7,768             | 7,768            |
| <b>Other comprehensive income</b>       |   |                |                             |                   |                  |
| Currency translation differences        | –   | –              | (6,179)                     | –                 | (6,179)          |
| Total other comprehensive income        | –   | –              | (6,179)                     | –                 | (6,179)          |
| <b>Total comprehensive income</b>       | <b>–</b>                                      | <b>–</b>       | <b>(6,179)</b>              | <b>7,768</b>      | <b>1,589</b>     |
| Repurchase and cancellation of shares   | (164)   | (34,492)       | 164                         | (164)             | (34,656)         |
| Exercise of share options               | 16  | –              | (16)                        | 16                | 16               |
| Share option scheme – value of services | –   | –              | 6,333                       | –                 | 6,333            |
| <b>Balance at 30 June 2014</b>          | <b>7,091</b>                                  | <b>812,932</b> | <b>106,822</b>              | <b>420,495</b>    | <b>1,347,340</b> |

The notes on pages 32 to 60 are an integral part of these financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

|   | Unaudited<br>For the six months<br>ended 30 June |                  |
|---|--|------------------|
|   | 2014<br>HKD'000                                  | 2013<br>HKD'000  |
| Net cash (used in) from operating activities              | (67,427)   | 8,086            |
| Net cash from (used in) investing activities              | 18,715   | (164,729)        |
| Net cash used in financing activities                     | (34,640)   | (43,534)         |
| <b>Net decrease in cash and cash equivalents</b>          | <b>(83,352)</b>                                  | <b>(200,177)</b> |
| Cash and cash equivalents at the beginning of the period  | 281,828  | 558,937          |
| Exchange difference                                       | (917)  | 5,935            |
| <b>Cash and cash equivalents at the end of the period</b> | <b>197,559</b>                                   | <b>364,695</b>   |

The notes on pages 32 to 60 are an integral part of these financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

## 1. 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 on 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

These interim condensed consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These interim condensed consolidated financial statements were approved for issue on 20 August 2014.

These interim condensed consolidated financial statements are not audited or reviewed by the Company's auditor but have been reviewed by the Company's Audit Committee.

## 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.

## 3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements, except for the adoption of the standards, amendments and interpretation issued by Hong Kong Institute of Certified Public Accountants mandatory for annual periods beginning 1 January 2014. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's result of operations or financial position.

Exceptional items are disclosed and described separately in the financial information where it is necessary to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

#### **4. ESTIMATES**

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

#### **5. SEGMENT REPORTING**

The chief operating decision-maker ("CODM") has been identified as the senior executive management of the Company. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources.

Due to the fact that the Group continued to diversify its product ranges of its optical networking business, 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 of its optical networking business. 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. In addition, due to the Group started to diversify into new business starting from 2012 and the new business was under developing and still immaterial, the CODM considers that the Group has only one single operating segment of its optical networking business and no segment information was disclosed.

All the reported revenues from sales of goods were made to external customers for the six months ended 30 June 2014 and 2013.

**5. SEGMENT REPORTING (CONTINUED)**

- (a) Based on the places of shipment, revenue from external customers in the People's Republic of China (the "PRC"), Europe, North and South America and other Asia countries excluding the PRC is as follows:

|  | <b>For the six months<br/>ended 30 June</b> |                |
|--|---|----------------|
|  | <b>2014</b>                                 | 2013           |
|  | <b>HKD'000</b>                              | <i>HKD'000</i> |
| The PRC                                | <b>176,737</b>                              | 131,961        |
| Europe                                 | <b>119,689</b>                              | 66,102         |
| North and South America                | <b>28,080</b>                               | 18,649         |
| Other Asia countries excluding the PRC | <b>75,666</b>                               | 39,924         |
|  | <b>400,172</b>                              | 256,636        |

- (b) The total non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2014 and 31 December 2013 are as follows:

|  | <b>As at</b>            |                     |
|--|-------------------------|---------------------|
|  | <b>30 June<br/>2014</b> | 31 December<br>2013 |
|  | <b>HKD'000</b>          | <i>HKD'000</i>      |
| The PRC                                  | <b>608,349</b>          | 605,991             |
| Hong Kong                                | <b>40,422</b>           | 22,803              |
| The United States of America (the "USA") | <b>2,131</b>            | 2,541               |
|  | <b>650,902</b>          | 631,335             |

## 6. PROPERTY, PLANT AND EQUIPMENT

|                                      | Buildings<br>HKD'000 | Machinery<br>HKD'000 | Motor<br>vehicles<br>HKD'000 | Furniture,<br>fitting &<br>equipment<br>HKD'000 | Construction<br>in progress<br>HKD'000 | Total<br>HKD'000 |
|--------------------------------------|----------------------|----------------------|------------------------------|---|--|------------------|
| <b>At 1 January 2013</b>             |                      |                      |                              |   |  |                  |
| Cost                                 | –                    | 39,990               | 2,150                        | 220,868   | 328,288                                | 591,286          |
| Accumulated depreciation             | –                    | (25,028)             | (1,254)                      | (117,494)                                       | –                                      | (143,776)        |
| Net book amount                      | –                    | 14,962               | 896                          | 103,364   | 328,288                                | 447,510          |
| <b>Six months ended 30 June 2013</b> |                      |                      |                              |   |  |                  |
| Opening net book amount              | –                    | 14,962               | 896                          | 103,364   | 328,288                                | 447,510          |
| Additions                            | –                    | –                    | 284                          | 23,756  | 74,506                                 | 98,546           |
| Transfer                             | 306,223              | 36,029               | –                            | 35,463  | (377,715)                              | –                |
| Disposal                             | –                    | (363)                | –                            | (314)   | –                                      | (677)            |
| Depreciation                         | (2,721)              | (1,461)              | (123)                        | (16,156)  | –                                      | (20,461)         |
| Exchange difference                  | 2,991                | 606                  | 18                           | 2,248   | 2,906                                  | 8,769            |
| Closing net book amount              | 306,493              | 49,773               | 1,075                        | 148,361   | 27,985                                 | 533,687          |
| <b>At 30 June 2013</b>               |                      |                      |                              |   |  |                  |
| Cost                                 | 309,241              | 76,571               | 2,476                        | 283,755   | 27,985                                 | 700,028          |
| Accumulated depreciation             | (2,748)              | (26,798)             | (1,401)                      | (135,394)                                       | –                                      | (166,341)        |
| Net book amount                      | 306,493              | 49,773               | 1,075                        | 148,361   | 27,985                                 | 533,687          |
| <b>At 1 January 2014</b>             |                      |                      |                              |   |  |                  |
| Cost                                 | 389,087              | 48,285               | 2,131                        | 256,191   | 59,794                                 | 755,488          |
| Accumulated depreciation             | (5,731)              | (26,963)             | (1,023)                      | (150,877)                                       | –                                      | (184,594)        |
| Net book amount                      | 383,356              | 21,322               | 1,108                        | 105,314   | 59,794                                 | 570,894          |
| <b>Six months ended 30 June 2014</b> |                      |                      |                              |   |  |                  |
| Opening net book amount              | 383,356              | 21,322               | 1,108                        | 105,314   | 59,794                                 | 570,894          |
| Additions                            | –                    | –                    | 152                          | 10,660  | 24,724                                 | 35,536           |
| Transfer                             | –                    | –                    | –                            | –   | –                                      | –                |
| Disposal                             | –                    | –                    | –                            | –   | –                                      | –                |
| Depreciation                         | (4,271)              | (2,066)              | (158)                        | (16,163)  | –                                      | (22,658)         |
| Exchange difference                  | (1,082)              | (55)                 | (3)                          | (285)   | (236)                                  | (1,661)          |
| Closing net book amount              | 378,003              | 19,201               | 1,099                        | 99,526  | 84,282                                 | 582,111          |
| <b>At 30 June 2014</b>               |                      |                      |                              |   |  |                  |
| Cost                                 | 385,386              | 47,798               | 2,261                        | 264,270   | 84,282                                 | 783,997          |
| Accumulated depreciation             | (7,383)              | (28,597)             | (1,162)                      | (164,744)                                       | –                                      | (201,886)        |
| Net book amount                      | 378,003              | 19,201               | 1,099                        | 99,526  | 84,282                                 | 582,111          |

**7. INVESTMENT IN AN ASSOCIATE**

On 27 January 2014, the Group subscribed 6,304,116 preferred shares of ArtIC Photonics Inc. ("ArtIC"), representing 38% of the issued share capital of ArtIC, with a cash consideration of USD3,100,000 (equivalent to approximately HKD24,180K). ArtIC is a company incorporated in Canada, which is engaged in the custom design and fabless development of photonic integrated circuit chips for use in optical component products in telecom and datacom markets.

|                                     | <b>Six months<br/>ended<br/>30 June 2014<br/>HKD'000</b> |
|-------------------------------------|--|
| Beginning of the period             | –  |
| Addition                            | <b>24,180</b>  |
| Share of post-tax loss of associate | <b>(2,945)</b>   |
| <b>End of the period</b>            | <b>21,235</b>  |

The Group's share of the results in ArtIC and its aggregated assets and liabilities are shown below:

|                 | <b>Six months<br/>ended<br/>30 June 2014<br/>HKD'000</b> |
|-----------------|--|
| Assets          | <b>6,349</b>   |
| Liabilities     | <b>65</b>  |
| Share of loss   | <b>(2,945)</b>   |
| Percentage held | <b>38%</b>   |

## 8. TRADE AND OTHER RECEIVABLES

|   | As at                      |                                |
|---|----------------------------|--------------------------------|
|   | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |
| Trade receivables (a)                         | 264,364                    | 252,175                        |
| Less: provision for impairment of receivables | (3,212)                    | (480)                          |
| Trade receivables – net                       | 261,152                    | 251,695                        |
| Amounts due from related parties              | 12,047                     | 3,886                          |
| Bills receivables (b)                         | 53,231                     | 45,199                         |
| Prepayments                                   | 9,704                      | 6,345                          |
| Interest receivables                          | 5,214                      | 3,056                          |
| Other receivables (c)                         | 82,810                     | 7,777                          |
|   | <b>424,158</b>             | <b>317,958</b>                 |

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

| Trade receivables | As at                      |                                |
|-------------------|----------------------------|--------------------------------|
|                   | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |
| Within 30 days    | 94,197                     | 91,794                         |
| 31 to 60 days     | 65,694                     | 69,034                         |
| 61 to 90 days     | 46,903                     | 54,618                         |
| 91 to 180 days    | 31,316                     | 27,166                         |
| 181 to 365 days   | 18,001                     | 5,713                          |
| Over 365 days     | 8,253                      | 3,850                          |
|                   | <b>264,364</b>             | <b>252,175</b>                 |

## 8. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

| Bills receivables | As at                      |                                |
|-------------------|----------------------------|--------------------------------|
|                   | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |
| Within 30 days    | 10,838                     | 8,772                          |
| 31 to 90 days     | 24,013                     | 14,550                         |
| 91 to 180 days    | 18,380                     | 21,877                         |
|                   | <b>53,231</b>              | 45,199                         |

- (c) The other receivables are as follows:

| Other receivables                                 | As at                      |                                |
|---|----------------------------|--------------------------------|
|   | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |
| Deposit to a third party (i)                      | 29,903                     | –                              |
| Deposit to the trustee of share award scheme (ii) | 50,010                     | –                              |
| Others  | 2,897                      | 7,777                          |
|   | <b>82,810</b>              | 7,777                          |

- (i) A sale of goods agreement had been signed between a subsidiary of the Company, O-Net Communications (Shenzhen) Limited ("O-Net SZ") and a third party, Integrated Photonics, Inc. ("IPI") in April 2014 for securing the supply of faraday rotators by IPI in coming 5 years. In return, O-Net SZ had paid HKD29,903,000 to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI shall keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount to O-Net SZ after 5 years. As security for IPI's obligations to pay the cost of the Platinum, O-Net SZ granted a first priority lien by IPI for the interest in the Platinum.
- (ii) On 9 May, 2014, the Company had adopted the Share Award Scheme as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. The Company appointed O-Net Share Award Plan Limited as the trustee. As at 30 June, 2014, the Company had transferred HKD50,010,000 to the trustee as the deposit for acquiring its own shares for the purpose of the share award scheme.

## 9. SHARE CAPITAL

|  | Authorized share capital –<br>ordinary shares of par value<br>of HKD0.01 each  |                |
|--|--|----------------|
|  | <i>Number of<br/>shares</i>  | <i>HKD</i>     |
| As at 30 June 2013 and 30 June 2014                                    | 10,000,000,000   | 100,000,000    |
|  | Issued and fully paid up –<br>ordinary shares of par value<br>of HKD 0.01 each |                |
|  | <i>Number of<br/>shares</i>  | <i>HKD'000</i> |
| As at 1 January 2013   | 755,549,240  | 7,556          |
| Repurchase and cancellation of shares<br>during the period (a)         | (14,522,000)   | (146)          |
| As at 30 June 2013   | 741,027,240  | 7,410          |
| <b>As at 1 January 2014</b>  | <b>723,870,240</b>   | <b>7,239</b>   |
| <b>Repurchase and cancellation of shares<br/>during the period (a)</b> | <b>(16,383,000)</b>  | <b>(164)</b>   |
| <b>Exercise of share options during the period (b)</b>                 | <b>1,579,000</b>   | <b>16</b>      |
| <b>As at 30 June 2014</b>  | <b>709,066,240</b>   | <b>7,091</b>   |

(a) During the six month ended 30 June 2014 and 2013, the Company repurchased and cancelled 16,383,000 and 14,522,000 ordinary shares, respectively.

(b) On 2 May 2014, 1,579,000 share options were exercised into 1,579,000 shares.

## 10. OTHER RESERVES

|  | Capital redemption reserve<br><i>HKD' 000</i> | Share-based compensation<br><i>HKD' 000</i> | Capital reserve arising from Reorganization<br><i>HKD' 000</i><br>(a) | Currency translation reserve<br><i>HKD' 000</i> | Share of other comprehensive investment in Joint venture<br><i>HKD' 000</i> | Total<br><i>HKD' 000</i> |
|--|---|---|---|---|---|--------------------------|
| <b>Balance at 1 January 2013</b>                           | 775   | 88,709                                      | (85,421)  | 61,209  | –   | 65,272                   |
| Share option scheme – value of services ( <i>Note 21</i> ) | –   | 6,871                                       | –   | –   | –   | 6,871                    |
| Repurchases and cancellation of shares                     | 146   | –   | –   | –   | –   | 146                      |
| Currency translation differences                           | –   | –   | –   | 16,919  | –   | (16,919)                 |
| <b>Balance at 30 June 2013</b>                             | 921   | 95,580                                      | (85,421)  | 78,128  | –   | 89,208                   |
| <b>Balance at 1 January 2014</b>                           | <b>1,092</b>                                  | <b>99,430</b>                               | <b>(85,421)</b>   | <b>91,442</b>                                   | <b>(23)</b>   | <b>106,520</b>           |
| Share option scheme – value of services ( <i>Note 21</i> ) | –   | 6,333                                       | –   | –   | –   | 6,333                    |
| Repurchases and cancellation of shares                     | 164   | –   | –   | –   | –   | 164                      |
| Exercise of share options                                  | (16)  | –   | –   | –   | –   | (16)                     |
| Currency translation differences                           | –   | –   | –   | (6,179)   | –   | (6,179)                  |
| <b>Balance at 30 June 2014</b>                             | <b>1,240</b>                                  | <b>105,763</b>                              | <b>(85,421)</b>   | <b>85,263</b>                                   | <b>(23)</b>   | <b>106,822</b>           |

- (a) The Company undertook the Reorganization during the year ended 2010. The share capital and share premium in the consolidated financial statements as at 1 January 2011 reflect the share capital and share premium of the Company as if it had been always been issued. The difference between the capital reserve of the consolidated financial statements of the Listing Business (explained in Note 1) and the share capital and share premium of the Company was presented as capital reserve arising from Reorganization.

## 11. TRADE AND OTHER PAYABLES

|                         | As at                      |                                |
|-------------------------|----------------------------|--------------------------------|
|                         | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |
| Trade payables (a)      | 122,786                    | 118,501                        |
| Bills payables (b)      | 4,910                      | 1,367                          |
| Accrued expenses        | 10,275                     | 12,309                         |
| Payroll payable         | 20,495                     | 17,756                         |
| Other payables          | 10,226                     | 39,141                         |
| Advances from customers | 8,001                      | 6,597                          |
| Other taxes payable     | 10,497                     | 4,205                          |
|                         | <b>187,190</b>             | 199,876                        |

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

| Trade payables       |                            | As at                          |  |
|----------------------|----------------------------|--------------------------------|--|
|                      | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |  |
| Within 30 days       | 33,709                     | 36,135                         |  |
| 31 days to 60 days   | 18,564                     | 36,758                         |  |
| 61 days to 180 days  | 31,412                     | 41,566                         |  |
| 181 days to 365 days | 29,949                     | 367                            |  |
| Over 365 days        | 9,152                      | 3,675                          |  |
|                      | <b>122,786</b>             | 118,501                        |  |

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

| Bills payables |                            | As at                          |  |
|----------------|----------------------------|--------------------------------|--|
|                | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |  |
| Within 30 days | 1,243                      | –                              |  |
| 31 to 90 days  | 3,667                      | –                              |  |
| 91 to 180 days | –                          | 1,367                          |  |
|                | <b>4,910</b>               | 1,367                          |  |

## 12. REVENUE AND OTHER GAINS

Revenue consists of sales of optic networking subcomponents, components, modules and subsystem. Revenue and other gains recognized during the six months ended 30 June 2014 and 2013 are as follows:

|  | For the six months ended 30 June |                 |
|--|----------------------------------|-----------------|
|  | 2014<br>HKD'000                  | 2013<br>HKD'000 |
| Revenue  |                                  |                 |
| Sales of goods   | 400,172                          | 256,636         |
| Other gains – net                                      |                                  |                 |
| Government grants                                      | 6,749                            | 6,336           |
| Rental income  | 1,064                            | –               |
| Loss on disposal of property, plant and equipment, net | –                                | (675)           |
| Others   | (875)                            | 965             |
|  | 6,938                            | 6,626           |
| Total  | 407,110                          | 263,262         |

## 13. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is stated after crediting and charging the following:

|  | For the six months ended 30 June |                 |
|--|----------------------------------|-----------------|
|  | 2014<br>HKD'000                  | 2013<br>HKD'000 |
| Staff costs – excluding share options granted to directors and employees | 121,091                          | 95,190          |
| Share option expenses – for options granted to directors and employees   | 6,333                            | 6,871           |
| Raw materials consumed   | 172,705                          | 123,545         |
| Changes in inventories of finished goods and work in progress            | 5,237                            | 3,472           |
| Depreciation   | 22,658                           | 20,461          |
| Amortisation   | 372                              | 376             |
| Provision for impairment provision for doubtful receivables              | –                                | 1,167           |
| Provision for write-down of inventories                                  | 3,474                            | 3,159           |

**14. STAFF COSTS – INCLUDING DIRECTORS’ EMOLUMENTS**

|   | <b>For the six months<br/>ended 30 June</b> |         |
|---|---|---------|
|   | <b>2014</b>                                 | 2013    |
|   | <b>HKD'000</b>                              | HKD'000 |
| Salaries, bonus and other welfares                                | <b>110,193</b>                              | 87,179  |
| Pension – defined contribution plans                              | <b>10,898</b>                               | 8,011   |
| Share options granted to directors and employees <i>(Note 13)</i> | <b>6,333</b>                                | 6,871   |
|   | <hr/>                                       |         |
|   | <b>127,424</b>                              | 102,061 |
|   | <hr/>                                       |         |

**15. FINANCE INCOME**

|                            | <b>For the six months<br/>ended 30 June</b> |         |
|----------------------------|---|---------|
|                            | <b>2014</b>                                 | 2013    |
|                            | <b>HKD'000</b>                              | HKD'000 |
| Finance income             |   |         |
| – Interest income          | <b>7,145</b>                                | 4,353   |
| – Net exchange (loss)/gain | <b>(3,672)</b>                              | 5,888   |
|                            | <hr/>                                       |         |
| Finance income             | <b>3,473</b>                                | 10,241  |
|                            | <hr/>                                       |         |

## 16. INCOME TAX EXPENSES

|   | For the six months<br>ended 30 June |                 |
|---|-------------------------------------|-----------------|
|   | 2014<br>HKD'000                     | 2013<br>HKD'000 |
| Current income tax                            |                                     |                 |
| – Hong Kong profits tax (b)                   | –                                   | 1,213           |
| – PRC enterprise income tax (c)               | <b>1,517</b>                        | –               |
| – Taxation in other overseas jurisdiction (d) | –                                   | 471             |
| Total current income tax                      | <b>1,517</b>                        | 1,684           |
| Deferred income tax                           | –                                   | 4,351           |
| Income tax expenses                           | <b>1,517</b>                        | 6,035           |

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

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

(c) PRC enterprise income tax (the "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.

In addition, O-Net SZ applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It is entitled to a concessionary EIT tax rate of 15% for a period of 3 years from 2012 to 2014.

(d) Taxation in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

## 17. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2014 (30 June 2013: Nil).

## 18. EARNINGS/(LOSS) PER SHARE

### (a) Basic

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

|   | For the six months<br>ended 30 June |                 |
|---|-------------------------------------|-----------------|
|   | 2014<br>HKD'000                     | 2013<br>HKD'000 |
| Profit/(loss) attributable to equity holders of<br>the Company for the six months (HKD'000) | 7,768                               | (22,815)        |
| Weighted average number of ordinary shares<br>in issue (thousands)                          | 717,806                             | 754,327         |
| Basic earnings/(loss) per share (HKD per share)   | 0.01                                | (0.03)          |

### (b) Diluted

Diluted earnings/(loss) per share 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 earnings/(loss) per share).

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

18. EARNINGS/(LOSS) PER SHARE (CONTINUED)

(b) Diluted (Continued)

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

|  | For the six months<br>ended 30 June |          |
|--|-------------------------------------|----------|
|  | 2014                                | 2013     |
| Profit/(loss) attributable to equity holders of<br>the Company for the six months ( <i>HKD'000</i> )                           | <b>7,768</b>                        | (22,815) |
| Weighted average number of ordinary shares<br>in issue ( <i>thousands shares</i> )   | <b>717,806</b>                      | 754,327  |
| Adjustments for exercise of share options<br>( <i>thousands shares</i> )   | <b>(1,579)</b>                      | –        |
| Weighted average number of ordinary shares<br>for the calculation of diluted earnings per share<br>( <i>thousands shares</i> ) | <b>716,227</b>                      | 754,327  |
| Diluted earnings/(loss) per share ( <i>HKD per share</i> )   | <b>0.01</b>                         | (0.03)   |

## 19. COMMITMENTS

### Operating Leases Commitments

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

|                         | As at                      |                                |
|-------------------------|----------------------------|--------------------------------|
|                         | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |
| Not later than one year | 1,361                      | 2,326                          |
| Later than one year     | 4,411                      | 5,970                          |
|                         | <b>5,772</b>               | 8,296                          |

### Capital Commitments

|   | As at                      |                                |
|---|----------------------------|--------------------------------|
|   | 30 June<br>2014<br>HKD'000 | 31 December<br>2013<br>HKD'000 |
| Capital expenditure contracted for but not provided | 93,655                     | 67,483                         |

## 20. RELATED PARTY TRANSACTIONS

### (a) Name and relationship with Related Parties

| Name   | Relationship   |
|--|--|
| Butterfly Technology (Shenzhen) Ltd., Co.<br>("Butterfly")                   | Controlled by key management<br>personnel of the Company   |
| Hisense Broadband Multimedia<br>Technologies Co., Ltd<br>("Qingdao Hisense") | The key management personnel of the Company<br>was appointed as one of the directors of<br>the holding Company of Qingdao Hisense<br>from 20 July 2012 |

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

## 20. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the period ended 30 June 2014 and 31 December 2013:

#### Non-recurring transactions

|  | <b>As at</b>                        |                                |
|--|-------------------------------------|--------------------------------|
|  | <b>30 June<br/>2014<br/>HKD'000</b> | 31 December<br>2013<br>HKD'000 |
| Sales of goods                                 |                                     |                                |
| Qingdao Hisense                                | <b>11,922</b>                       | 5,791                          |
| Butterfly                                      | <b>1,420</b>                        | 200                            |
|  | <b>13,342</b>                       | 5,991                          |
| Purchases of fixed assets from a related party |                                     |                                |
| Butterfly                                      | –                                   | 663                            |
|  | –                                   | 663                            |
| Rental income received from a related party    |                                     |                                |
| Butterfly                                      | <b>1,064</b>                        | 1,964                          |
|  | <b>1,064</b>                        | 1,964                          |

### (c) Key management personnel remuneration

Key management includes directors (executive and non-executive), the company secretary, vice presidents and other key management personnel of O-Net Group. The compensation paid or payable to key management for the employee services is shown as below:

|                                      | <b>For the six months<br/>ended 30 June</b> |                 |
|--------------------------------------|---|-----------------|
|                                      | <b>2014<br/>HKD'000</b>                     | 2013<br>HKD'000 |
| Salaries, bonus and other welfares   | <b>8,215</b>                                | 6,723           |
| Pension – defined contribution plans | <b>60</b>                                   | 38              |
| Share option expenses                | <b>2,098</b>                                | 1,958           |
|                                      | <b>10,373</b>                               | 8,719           |

## 21. SHARE OPTION SCHEMES

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

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

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

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

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

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

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

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

Pursuant to the New Option Agreements described previously, the exercise period of type A share options will expire on a date as specified in the schedule of the supplemental trust deed. On 15 April 2011, it was agreed by the parties described above that the expiry date of type A shares options with expiring date of 15 April 2011 was extended from 15 April 2011 to 15 April 2013. The extension is regarded as a modification made to the original plan. However, the change in fair value arising from such modification was assessed by the directors to be insignificant.

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

The details of the Pre-IPO Share Option Scheme, taking into account the provisions of the New Option Agreements and the effect of the Share Option Migration, during the six months ended 30 June 2014 and 2013 are as below:

- (i) Movement of number of share options granted under the Pre-IPO Share Option Scheme outstanding during the six months ended 30 June 2014 and 2013 are as follows:

|                         | For the six months ended 30 June |           |
|-------------------------|----------------------------------|-----------|
|                         | 2014                             | 2013      |
| Beginning of the period | 975,987                          | 1,430,316 |
| Exercised               | –                                | (415,594) |
| Forfeited               | (22,950)                         | (14,812)  |
| End of the period       | 953,037                          | 999,910   |

- (ii) Share options granted under the Pre-IPO Share Option Scheme outstanding as at 30 June 2014 and 2013 were as follows:

| Number of share options granted to | As at        |              | Expiry date                   |
|------------------------------------|--------------|--------------|-------------------------------|
|                                    | 30 June 2014 | 30 June 2013 |                               |
| Directors                          | 87,454       | 96,794       | September 2015                |
| Employees                          | 865,583      | 903,116      | September 2015 – October 2016 |
|                                    | 953,037      | 999,910      |                               |

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".

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

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 Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of HKD0.01 per share.

Details of the share options are as follows:

| Date of grant   | Number of share options granted     | Number of share options outstanding as at 30 June 2014 | Exercise price | Vesting date   |
|-----------------|-------------------------------------|--|----------------|--|
| 10 October 2011 | Tranches 1, 2, 3, 4 & 5:<br>800,000 | 4,000,000  | HKD1.870       | Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years. |
|                 | Total:<br>4,000,000                 |  |                |  |

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

| Date of grant | Number of share options granted | Number of share options outstanding as at 30 June 2014 | Exercise price | Vesting date   |
|---------------|---------------------------------|--|----------------|--|
| 1 June 2012   | Tranche 1:<br>14,929,000        | 23,929,000   | HKD1.910       | Tranche 1 (for certain directors and employees):   |
|               | Tranche 2:<br>1,360,000         |  |                | (i) 40% of the Replacement Options shall be exercisable from 2 June 2012;  |
|               | Tranche 3:<br>4,390,000         |  |                | (ii) another 20% of the Replacement Options shall be exercisable from 2 June 2013;   |
|               | Tranche 4:<br>13,172,000        |  |                | (iii) another 20% of the Replacement Options shall be exercisable from 2 June 2014; and  |
|               | Total:<br>33,851,000            |  |                | (iv) the remaining Replacement Options shall be exercisable from 2 June 2015.  |
|               |                                 |  |                | Tranche 2 (for certain employees): vesting period commences at 2 June 2012, equally over a period of 4 years.                  |
|               |                                 |  |                | Tranche 3 (for one director and certain employees): vesting period commences at 2 June 2013, equally over a period of 3 years. |
|               |                                 |  |                | Tranche 4 (for one director and certain employees): vesting period commences at 2 June 2012, equally over a period of 3 years. |

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

| Date of grant  | Number of share options granted   | Number of share options outstanding as at 30 June 2014 | Exercise price | Vesting date  |
|----------------|---|--|----------------|---|
| 9 October 2012 | Tranches 1, 2, 3, 4 & 5: 400,000<br><br>Total: 2,000,000  | 2,000,000  | HKD1.810       | Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years   |
| 22 April 2013  | Tranches 1: 200,000<br><br>Tranches 2: 2,350,000<br><br>Tranches 3: 350,000<br><br>Total: 2,900,000 | 2,550,000  | HKD1.680       | Tranche 1 (for a certain employee): vesting period commences at 12 February 2014, equally over a period of 5 years.<br><br>Tranche 2 (for certain employees): vesting period commences at 3 March 2014, equally over a period of 5 years.<br><br>Tranche 3 (for certain employees): vesting period commences at 7 April 2014, equally over a period of 5 years. |
| 11 Sep 2013    | Tranches 1, 2, 3, 4 & 5: 400,000<br><br>Total: 2,000,000  | 2,000,000  | HKD1.708       | Tranches 1, 2, 3, 4 & 5 (certain employees): vesting period commences at 11 Sep 2014, equally over a period of 5 years. at the end of the anniversary of the grant date, equally over a period of 5 years   |

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

| Date of grant | Number of share options granted                                   | Number of share options outstanding as at 30 June 2014 | Exercise price | Vesting date   |
|---------------|---|--|----------------|--|
| 25 Sep 2013   | Tranches 1, 2, 3, 4 & 5:<br>70,000<br><br>Total:<br>350,000       | 350,000  | HKD1.652       | Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 13 Aug 2014, equally over a period of 5 years                   |
| 16 Oct 2013   | Tranches 1, 2, 3, 4:<br>1,000,000<br><br>Total:<br>4,000,000      | 4,000,000  | HKD1.628       | Tranches 1, 2, 3, 4 (for certain employees): vesting period commences at 14 Oct 2014, equally over a period of 4 years                       |
| 8 Nov 2013    | Tranches 1, 2, 3, 4 & 5:<br>2,060,000<br><br>Total:<br>10,300,000 | 10,100,000   | HKD1.484       | Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 8 Nov 2014, equally over a period of 5 years.                   |
| 9 April 2014  | Tranches 1, 2, 3, 4 & 5:<br>374,000<br><br>Total:<br>1,870,000    | 1,830,000  | HKD2.40        | Tranches 1, 2, 3, 4 & 5 (for a director and certain employees): vesting period commences at 28 March 2015, equally over a period of 5 years. |

All the share options granted and stated above shall lapse on 8 April 2020.

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

The details of the Post-IPO Share Options Scheme are as below:

- (i) Movement of number of share options outstanding during the six months ended 30 June 2014 and 2013 are as follows:

|                         | For the six months<br>ended 30 June |             |
|-------------------------|-------------------------------------|-------------|
|                         | 2014                                | 2013        |
| Beginning of the period | 52,664,000                          | 38,498,000  |
| Granted (a)             | 1,870,000                           | 2,900,000   |
| Exercised               | (1,579,000)                         | –           |
| Forfeited               | (2,196,000)                         | (2,368,000) |
| End of the period       | 50,759,000                          | 39,030,000  |

- (a) In order to motivate the employees and directors who were granted options of the Company on 2 June 2010 and 13 January 2011 (the “Grantees”) with exercise price of HKD3.128 and HKD5.374 respectively, on 1 June 2012, the Company cancelled 33,851,000 shares of options previously granted to the Grantees and granted the same number of new options (the “Replacement options”) to subscribe for new shares of the Company with exercise price of HKD1.910. Due to the fact that reduction of exercise price is considered to be beneficial to the Grantees, these replacement options are accounted for as modification of the original share options granted. The incremental fair value as of the date of modification is recognised over the remainder of the vesting period.

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

- (i) HKD3.00 – For the Replacement Options which can be allowed to be exercisable on or before 2 June 2013; and
- (ii) HKD3.50 – For the Replacement Options which can be allowed to be exercisable on or after 13 July 2013.

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

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

Granted on 10 October 2011:

| <b>Weighted average fair value</b> |                  |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
| <b>Tranche 1</b>                   | <b>Tranche 2</b> | <b>Tranche 3</b> | <b>Tranche 4</b> | <b>Tranche 5</b> |
| <i>HKD</i>                         | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       |
| 0.7337                             | 0.8299           | 0.9007           | 0.9576           | 0.9990           |

The fair value of the share options granted on 10 October 2011 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.870, volatility of 63.617%, dividend yield of 1.5%, expected option life of 10 years, expected retention rate of the employees at 76%, and an annual risk-free interest rate of 1.222%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

Modified on 1 June 2012:

| <b>Weighted average fair value</b> |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|
| <b>Tranche 1</b>                   | <b>Tranche 2</b> | <b>Tranche 3</b> | <b>Tranche 4</b> |
| <i>HKD</i>                         | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       |
| 0.8254                             | 0.8418           | 0.8692           | 0.7848           |

The fair value of the share options granted on 1 June 2012 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.910, volatility of 60.42%, dividend yield of 1.5%, expected option life of 7.86 years, expected retention rate of the employees at 87.5%, and an annual risk-free interest rate of 0.731%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

(ii) (Continued)

Granted on 9 October 2012:

| <b>Weighted average fair value</b> |                  |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
| <b>Tranche 1</b>                   | <b>Tranche 2</b> | <b>Tranche 3</b> | <b>Tranche 4</b> | <b>Tranche 5</b> |
| <i>HKD</i>                         | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       |
| 0.7935                             | 0.8426           | 0.8789           | 0.9058           | 0.9221           |

The fair value of the share options granted on 9 October 2012 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.810, volatility of 60.261%, dividend yield of 1.5%, expected option life of 7.5 years, expected retention rate of the employees at 87.5%, and an annual risk-free interest rate of 0.488%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

Granted on 22 April 2013:

| <b>Weighted average fair value</b> |                  |                  |
|------------------------------------|------------------|------------------|
| <b>Tranche 1</b>                   | <b>Tranche 2</b> | <b>Tranche 3</b> |
| <i>HKD</i>                         | <i>HKD</i>       | <i>HKD</i>       |
| 0.7831                             | 0.7845           | 0.787            |

The fair value of the share options granted on 22 April 2013 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.680, volatility of 60.056%, dividend yield of 1.8%, expected option life of 6.8 years, expected retention rate of the employees at 88.0%, and an annual risk-free interest rate of 0.545%. 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 7 years.

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

(ii) (Continued)

Granted on 11 September 2013:

| Weighted average fair value |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|
| Tranche 1                   | Tranche 2 | Tranche 3 | Tranche 4 | Tranche 5 |
| HKD                         | HKD       | HKD       | HKD       | HKD       |
| 0.7275                      | 0.7698    | 0.8019    | 0.8217    | 0.8306    |

The fair value of the share options granted on 11 September 2013 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.708, volatility of 60.922%, dividend yield of 1.8%, expected option life of 6.58 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 1.879%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

Granted on 25 September 2013:

| Weighted average fair value |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|
| Tranche 1                   | Tranche 2 | Tranche 3 | Tranche 4 | Tranche 5 |
| HKD                         | HKD       | HKD       | HKD       | HKD       |
| 0.7297                      | 0.7741    | 0.8066    | 0.8267    | 0.8360    |

The fair value of the share options granted on 25 September 2013 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.652, volatility of 61.648%, dividend yield of 1.8%, expected option life of 6.54 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 1.532%. 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.

## 21. SHARE OPTION SCHEMES (CONTINUED)

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

(ii) (Continued)

Granted on 16 October 2013:

| <b>Weighted average fair value</b> |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|
| <b>Tranche 1</b>                   | <b>Tranche 2</b> | <b>Tranche 3</b> | <b>Tranche 4</b> |
| <i>HKD</i>                         | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       |
| 0.7038                             | 0.7450           | 0.7749           | 0.7933           |

The fair value of the share options granted on 16 October 2013 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.628, volatility of 61.798%, dividend yield of 1.8%, expected option life of 6.48 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 1.481%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

Granted on 8 November 2013:

| <b>Weighted average fair value</b> |                  |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
| <b>Tranche 1</b>                   | <b>Tranche 2</b> | <b>Tranche 3</b> | <b>Tranche 4</b> | <b>Tranche 5</b> |
| <i>HKD</i>                         | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       | <i>HKD</i>       |
| 0.5918                             | 0.6268           | 0.6522           | 0.6680           | 0.6741           |

The fair value of the share options granted on 8 November 2013 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD1.484, volatility of 62.268%, dividend yield of 1.8%, expected option life of 6.42 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 1.166%. 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.

21. SHARE OPTION SCHEMES (CONTINUED)

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

(ii) (Continued)

Granted on 9 April 2014:

| Weighted average fair value |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|
| Tranche 1                   | Tranche 2 | Tranche 3 | Tranche 4 | Tranche 5 |
| HKD                         | HKD       | HKD       | HKD       | HKD       |
| 1.1340                      | 1.2110    | 1.2750    | 1.3242    | 1.3540    |

The fair value of the share options granted on 9 April 2014 was determined using the Trinomial Model valuation model. The significant inputs into the model were exercise price of HKD2.40, volatility of 61.794%, dividend yield of nil, expected option life of 6.0 years, expected retention rate of the employees at 88%, and an annual risk-free interest rate of 1.597%. The volatility is measured as the standard deviation of expected share price returns and is determined based on statistical analysis of average daily share prices of certain comparable companies over last 5 years.

(iii) Share options granted under the Post-IPO Share Option Scheme outstanding as at 30 June 2014 and 31 December 2013 were as follows:

| Number of share options granted to | As at        |                  | Expiry date  |
|------------------------------------|--------------|------------------|--------------|
|                                    | 30 June 2014 | 31 December 2013 |              |
| Directors                          | 1,500,000    | 1,000,000        | 8 April 2020 |
| Employees                          | 49,259,000   | 51,664,000       | 8 April 2020 |
|                                    | 50,759,000   | 52,664,000       |              |

22. SUBSEQUENT EVENT

The Group did not have any significant subsequent event after the period ended 30 June 2014.