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O-NET COMMUNICATIONS (GROUP) LIMITED
昂納光通信（集團）有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 877)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

RESULTS

The Board (the "Board") of Directors (the "Directors") of O-Net Communications (Group) Limited (the "Company") is pleased to announce the preliminary consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013. These results have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED INCOME STATEMENT

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

		Year ended 31 December	
		2013	2012
	Note(s)	***HKD'000***	*HKD'000*
Revenue	*4*	**661,502**	727,368
Cost of sales	*5*	**(449,724)**	(426,929)
Gross profit		**211,778**	300,439
Other gains – net	*4*	**6,896**	5,029
Selling and marketing costs	*5*	**(30,319)**	(37,141)
Research and development expenses	*5*	**(88,979)**	(73,137)
Administrative expenses	*5*	**(98,129)**	(93,355)
Operating profit		**1,247**	101,835
Finance income	*6*	**16,614**	13,119
Finance costs	*6*	**–**	(826)
Share of losses of joint venture investment		**(2,822)**	–
Profit before income tax		**15,039**	114,128
Income tax expenses	*7*	**(1,664)**	(16,318)
Profit for the year		**13,375**	97,810
Profit attributable to:			
Equity holders of the Company		**13,375**	97,810
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	*8*	**0.02**	0.13
– Diluted	*8*	**0.02**	0.13

		Year ended 31 December	
		2013	2012
	Note	***HKD***	*HKD*
Dividend	*9*	**–**	22,666

CONSOLIDATED BALANCE SHEET

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

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

		As at 31 December	
		2013	2012
	Note	***HKD'000***	*HKD'000*
LIABILITIES			
Non-current liabilities			
Deferred government grants		**6,118**	–
Current liabilities			
Trade and other payables	*11*	**199,876**	186,498
Current income tax liabilities		**2,082**	13,450
Amounts due to related parties		**987**	–
		202,945	199,948
Total liabilities		**209,063**	199,948
Total equity and liabilities		**1,583,121**	1,588,619
Net current assets		**737,114**	896,222
Total assets less current liabilities		**1,380,176**	1,388,671

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Hong Kong dollar thousands unless otherwise stated)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. 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.

All the reported revenues from sales of goods were made to external customers for the year ended 31 December 2013 (2012 – same).

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

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

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

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

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

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

4. REVENUE AND OTHER GAINS – NET

Revenue consists of sales of optic networking subcomponents, components, modules and subsystems. Revenue and other gains recognized during the years ended 31 December 2013 and 2012 are as follows:

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

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

5. EXPENSES BY NATURE

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

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

6. FINANCE (INCOME)/COSTS – NET

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

7. INCOME TAX EXPENSES

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

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

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

(c) O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen") applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It is entitled to a concessionary Enterprise Income Tax ("EIT") tax rate of 15% for a period of 3 years from 2012 to 2014.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rates applicable to the entities comprising the Group as follows:

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

8. EARNINGS PER SHARE

(a) Basic

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

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

(b) Diluted

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

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

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

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

(i) Due to the fact that the outstanding share options would lead to an anti-dilution impact on the computation of diluted EPS, the effect of conversion was excluded from the computation.

9. DIVIDENDS

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

(a) Trade receivables

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

As at 31 December 2013, trade receivables of HKD73,805,000 (2012 – HKD65,801,000) were past due but not impaired. They relate to a number of independent customers that have good reputation and good trading and settlement history maintained with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances since there have not been any significant changes in their credit quality and the balances are considered fully recoverable.

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

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

As at 31 December 2013, trade receivables of HKD480,000 (2012 – HKD509,000) were impaired. All these balances had been fully provided for impairment losses. The ageing of these trade receivables is based on invoice date as follows:

	2013	2012
	HKD'000	*HKD'000*
Past due over 365 days	**480**	509

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

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

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

Bills receivable

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

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

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

11. TRADE AND OTHER PAYABLES

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

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

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

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

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

	2013	2012
	HKD'000	*HKD'000*
RMB	**175,639**	144,390
USD	**10,960**	33,906
HKD	**12,983**	7,967
JPY	**294**	235
	199,876	186,498

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

INDUSTRY AND BUSINESS REVIEW

Optical Networking Business

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

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

Automation Business

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

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

For the year ended 31 December 2013 ("FY2013"), the Group initially achieved a revenue of HKD7.5 million by supplying customized automation equipment to several selected manufacturing industries including electronic cigarette industry as well as heating coils to electronic cigarette makers in China. The gross profit margin of automation business was 39.5%.

FINANCIAL REVIEW

Revenue

Revenue in FY2013 which totaled HKD661.5 million, representing a decrease of HKD65.9 million, or 9.1%, compared to HKD727.4 million in the year ended 31 December 2012 ("FY2012"), primarily attributable to the significant decrease in revenue of the optical networking business from the overseas market in the first half of FY2013, even the decline was partially offset by the increase in the revenue of optical networking business from the overseas market in the second half of FY2013 and the new revenue source generated from the automation business.

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

In the overseas market, even as the revenue in the second half of FY2013 increased by 26% in compared to the second half of FY2012, the significant decline of demand from the overseas market during the first half of FY2013 adversely affected the Group's overseas revenue. Consequently, overseas sales of HKD384.7 million was recorded in FY2013, representing a drop of 12.3% compared with FY2012.

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

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

Gross Profit and Gross Profit Margin

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

Other Gains

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

Selling and Marketing Costs

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

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

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

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

Research and Development Expenses

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

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

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

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

Administrative Expenses

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

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

The utilities expenses were HKD17.1 million in FY2013, an increase of 166.0%, as compared with last year. The increase was primarily attributable to the additional recurring expenses of these kinds incurred since the usable space of factory expanded by 3.3 times after relocation to the new factory.

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

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

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

Finance Income

Net finance income for FY2013 amounted to HKD16.6 million, an increase of HKD4.3 million from HKD12.3 million in FY2012 due to an increase in foreign exchange gain which offset by the decrease in interest income. The higher foreign exchange gain was due to the appreciation of the RMB. The increase in foreign exchange gain of HKD10.6 million was primarily attributable to the fact that while most of our cash was held in RMB rather than the functional currency of the Company, the appreciation of RMB to USD continued to modestly rise in FY2013. The interest income in FY2013 was HKD5.0 million, a decrease of 59.7% compared with HKD12.4 million in FY2012. The decrease was mainly due to the decrease in total amount of cash and bank deposits of HKD192.8 million from HKD649.8 million in FY2012 to HKD457.0 million in FY2013.

Share of the Result of a Joint Venture

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

Profit Before Tax and Profit Before Tax Margin

Profit before tax decreased by HKD99.1 million from HKD114.1 million for FY2012 to HKD15.0 million for FY2013. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 15.7% for FY2012 to 2.3% for FY2013. The decreases in profit before tax and profit before tax margin for the year were primarily due to a decline in revenue and gross profit margin as well as increases in R&D expenses and administrative expenses as described above.

Income Tax Expenses

Currently, income tax expenses of the Group consist of Hong Kong profits tax and PRC EIT.

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

Income tax expenses in FY2013 amounted to HKD1.7 million, representing a drop of HKD14.7 million, or 89.8% from the income tax expense of HKD16.3 million in FY2012. The drop in income tax expenses was primarily due to a decline in net profit before tax in FY2013.

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

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

NON-GAAP FINANCIAL PERFORMANCE

Reconciliation of Non-GAAP Financial Measures

The Group believes that providing non-GAAP financial measures is helpful to investors that compare our financial performance with most of the comparable companies listed on NASDAQ in the U.S.A., which also provides non-GAAP financial measures. Generally, these non-GAAP financial measures are a numerical measure of a Group's performance and financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with 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.

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

Non-GAAP Profit Analysis

Non-GAAP net profit for FY2013 was HKD30.2 million, or HKD0.04 per share, compared to the non-GAAP net profit of HKD128.1 million, or HKD0.16 per share, reported for FY2012. Non-GAAP results for FY2013 excluded HKD8.4 million in provision for excess and obsolete inventory, HKD10.7 million in share options granted to Directors and employees expenses, HKD0.8 million in amortization of intangible assets, and HKD0.1 million in fair value loss on derivative financial instruments and include HKD3.2 million in investment income from investments in joint venture. Non-GAAP results for FY2012 excluded HKD1.8 million in provision for excess and obsolete inventory, HKD27.6 million in share options granted to Directors and employees expenses and HKD0.9 million in amortization of intangible assets.

FUTURE PROSPECTS

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

Take the Optical Networking Business Back to High-Growth Track

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

Diversify for Enhancing Long Term Value

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

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

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

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As of 31 December 2013, the Group had cash and cash equivalents of approximately HKD281.8 million (31 December 2012: HKD558.9 million). The significant decrease was due to the capital expenditure on property, plant and equipment during the year. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possessed sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

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

PLEDGE ON GROUP ASSETS

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

During the year ended 31 December 2013, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2013, the Group had contractual capital commitments of approximately HKD67.5 million (31 December 2012: HKD118.3 million). As at 31 December 2013, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

CAPITAL EXPENDITURE

During the year ended 31 December 2013, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD149.7 million (31 December 2012: HKD237.9 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

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

EMPLOYEE BENEFIT

As at 31 December 2013, the Group had a total of 2,354 employees (31 December 2012: 2,350). The Group's staff costs (including Directors' fees) amounted to HKD209.5 million (31 December 2012: HKD226.0 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice. The Group has provided its employees medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

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

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. During the year ended 31 December 2013, options in aggregate of 19,550,000 were granted to 41 employees of the Group (31 December 2012: options in aggregate of 35,851,000 were granted to 2 Directors and 307 employees of the Group). The Directors believe that the compensation packages offered by the Group to staff members are competitive in comparison with market standards and practices.

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2014 Annual General Meeting to be held on Tuesday, 3 June 2014 ("2014 AGM"), the register of members of the Company will be closed from Thursday, 29 May 2014 to Tuesday, 3 June 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at 2014 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 28 May 2014.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2013.

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

As at 31 December 2013, the Group maintained sufficient funds for the capital investment and operations for 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2013, the Company repurchased 31,679,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.27 to HKD1.66 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share		Aggregate purchase consideration (excluding expenses)
		Highest	Lowest	
		HKD	*HKD*	*HKD*
June 2013	14,522,000	1.59	1.27	20,758,706.60
July 2013	11,936,000	1.47	1.38	16,968,140.00
November 2013	3,035,000	1.57	1.47	4,721,950.00
December 2013	2,186,000	1.66	1.56	3,545,530.00
	31,679,000			45,994,326.60

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on 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 year ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

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

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

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

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

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

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

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

AUDITORS' PROCEDURES PERFORMED ON THIS RESULT ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Group's auditors, PricewaterhouseCoopers, to be the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

The Company established the 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 consolidated financial statements of the Group for the year ended 31 December 2013 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 18 March 2014

As at the date of this announcement, the executive Director is Mr. Na Qinglin, the non-executive Directors are Mr. Tam Man Chi, Mr. Chen Zhujiang and Mr. Huang Bin, and the independent non-executive Directors are Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei.