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 YEAR ENDED 31 DECEMBER 2012 AND CHANGE OF USE OF PROCEEDS

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 2012. These results have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

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

		Year ended 31 December	
		2012	2011
	Note	***HKD'000***	*HKD'000*
Revenue	*4*	**727,368**	669,381
Cost of sales	*5*	**(426,929)**	(369,545)
Gross profit		**300,439**	299,836
Other gains – net	*4*	**5,029**	6,661
Selling and marketing costs	*5*	**(37,141)**	(35,275)
Research and development expenses	*5*	**(73,137)**	(50,854)
Administrative expenses	*5*	**(93,355)**	(90,241)
Operating profit		**101,835**	130,127
Finance income	*6*	**13,119**	24,244
Finance costs	*6*	**(826)**	(176)
Finance income – net	*6*	**12,293**	24,068
Profit before income tax		**114,128**	154,195
Income tax expenses	*7*	**(16,318)**	(20,746)
Profit for the year		**97,810**	133,449
Profit attributable to:			
Equity holders of the Company		**97,810**	133,449
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	*8*	**0.13**	0.16
– Diluted	*8*	**0.13**	0.16

		Year ended 31 December	
		2012	2011
	Note	***HKD'000***	*HKD'000*
Dividend	*9*	**22,666**	24,000

CONSOLIDATED BALANCE SHEET

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

	Note	As at 31 December 2012 HKD'000	2011 HKD'000
ASSETS			
Non-current assets			
Land use right		**28,885**	29,541
Property, plant and equipment		**447,510**	240,091
Other non-current assets		**11,462**	–
Intangible assets		**276**	500
Deferred income tax assets		**4,316**	4,019
		492,449	274,151
Current assets			
Inventories		**177,071**	115,450
Trade and other receivables	*10*	**264,054**	294,523
Other current assets		**5,289**	–
Pledged bank deposits		**15,589**	66,253
Term deposits with initial term of over three months		**75,230**	50,700
Cash and cash equivalents		**558,937**	768,643
		1,096,170	1,295,569
Total assets		**1,588,619**	1,569,720
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**7,556**	8,000
Reserves		**1,381,115**	1,361,894
Total equity		**1,388,671**	1,369,894

		As at 31 December	
		2012	2011
	Note	***HKD'000***	*HKD'000*
LIABILITIES			
Current liabilities			
Trade and other payables	*11*	**186,498**	175,545
Current income tax liabilities		**13,450**	24,281
		199,948	199,826
Total liabilities		**199,948**	199,826
Total equity and liabilities		**1,588,619**	1,569,720
Net current assets		**896,222**	1,095,743
Total assets less current liabilities		**1,388,671**	1,369,894

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2012	2011
	HKD'000	*HKD'000*
Profit for the year	**97,810**	133,449
Other comprehensive income		
Currency translation differences	**(459)**	33,351
Total comprehensive income for the year	**97,351**	166,800
Total comprehensive income attributable to:		
Equity holders of the Company	**97,351**	166,800

NOTES TO THE COMBINED 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.

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 11 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

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

2.2 Changes in Accounting Policy and Disclosures

(a) *New and amended standards adopted by the Group.*

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2012.

- The HKASB has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012. The change in accounting policy does not have material impact on the Group.

- Amendment to HKFRS 7 'Disclosures-Transfer of financial assets' is effective for the annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- Amendment to HKFRS 1 'Severe hyperinflation and removal of fixed dates for first-time adopters' is effective for the annual periods beginning on or after 1 July 2011. These amendments include two changes to HKFRS 1, 'First-time adoption of HKFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to HKFRSs', thus eliminating the need for entities adopting HKFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe hyperinflation.

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

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group

- HKAS1 (Amendment) 'Financial statement presentation' regarding other comprehensive income is effective for annual periods beginning on or after 1 July 2012

- HKFRS1 (Amendment) 'First time adoption', on government loans is effective for annual periods beginning on or after 1 January 2013

- Amendment to HKFRS10, 11, 12 on transition guidance is effective for annual periods beginning on or after 1 January 2013

- HKFRS 10 (Amendment) 'Consolidated financial statements' is effective for annual periods beginning on or after 1 January 2013

- HKAS 27 (Revised) 'Separate financial statements' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 11 (Amendment) 'Joint arrangements' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 28 (Revised) 'Associates and joint ventures' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 12 (Amendment) 'Disclosure of interests in other entitie' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 13 (Amendment) 'Fair value measurements' is effective for annual periods beginning on or after 1 January 2013

- HKFRS 19 (Amendment) 'Employee benefits' is effective for annual periods beginning on or after 1 January 2013

- HK(IFRIC) – Int 20 (Amendment) 'Stripping costs in the production phase of a surface mine' is effective for annual periods beginning on or after 1 January 2013

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

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.

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

All the reported revenues from sales of goods were made to external customers for the year ended 31 December 2012 (2011– same).

(a) 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, they are determined by the places of shipment.

	2012	2011
	HKD'000	*HKD'000*
The PRC	**288,786**	315,671
Europe	**203,008**	199,951
North and South America	**67,982**	31,178
Other Asia countries excluding the PRC	**167,592**	122,581
	727,368	669,381

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2012 and 2011 are as follows:

	2012	2011
	HKD'000	*HKD'000*
The PRC	**487,921**	270,015
Hong Kong	**74**	117
United States of America ("USA")	**138**	–
	488,133	270,132

(c) During the year ended 31 December 2012, revenue derived from sales made to three (2011 – two) single external customers amounted to approximately 35% (2011 – 35%) of the Group's total revenue.

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 2012 and 2011 are as follows:

	2012	2011
	HKD'000	*HKD'000*
Revenue		
Sales of goods	**727,368**	669,381
Other gains – net		
Government grants (a)	**5,150**	6,026
Gain on sales of scrapped or surplus raw materials	**755**	651
(Loss)/gain on disposal of property, plant and equipment, net	**(877)**	12
Others	**1**	(28)
	5,029	6,661
Total	**732,397**	676,042

(a) The government grants were 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:

	2012	2011
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**198,353**	149,754
Share option expenses for options granted to directors and employees	**27,622**	27,864
Raw materials consumed	**352,753**	290,662
Changes in inventories of finished goods and work in progress	**(49,888)**	(14,766)
Depreciation	**29,827**	24,472
Amortization	**871**	871
Write back of impairment provision for doubtful receivables	**(834)**	(494)
Provision for write-down of inventories	**1,842**	2,820
Sales commissions	**18,331**	18,473
Utilities charges	**18,820**	16,512
Operating lease rental	**11,143**	10,145
Freight charges	**4,942**	5,032
Auditors' remuneration	**2,570**	2,298
Professional expenses	**1,647**	2,056
Travelling expenses	**2,572**	2,119
Advertising costs	**1,165**	1,187
Others	**8,826**	6,910
	630,562	545,915

6. FINANCE (INCOME)/COSTS – NET

	2012	2011
	HKD'000	*HKD'000*
Finance income		
– Interest income derived from bank deposits and other investment	**(12,390)**	(12,904)
– Exchange gain	**(729)**	(11,340)
Finance costs		
– Interest expenses on bank trade finance borrowings	**826**	176
Finance income – net	**(12,293)**	(24,068)

7. INCOME TAX EXPENSES

	2012	2011
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax (b)	**4,828**	2,698
– PRC enterprise income tax (c)	**11,786**	19,016
Total current income tax	**16,614**	21,714
Deferred income tax	**(296)**	(968)
Income tax expenses	**16,318**	20,746

(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")

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

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

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

In addition, O-NET Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It is entitled to a concessionary EIT tax rate of 15% for a period of 3 years from 2011 to 2013.

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:

	2012	2011
	HKD'000	*HKD'000*
Profit before income tax	**114,128**	154,195
Tax calculated at statutory tax rates applicable to entities comprising the Group	**28,532**	37,007
Tax effect of:		
Preferential tax concession	**(19,193)**	(23,028)
Expenses not deductible for tax purposes		
– Share option expenses	**6,906**	6,687
– Others	**73**	80
Income tax expenses	**16,318**	20,746

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.

	2012	2011
Profit attributable to equity holders of the Company (HKD'000)	**97,810**	133,449
Weighted average number of ordinary shares in issue (thousands)	**776,814**	820,058
Basic EPS (HKD per share)	**0.13**	0.16

(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).

	2012	2011
Profit attributable to equity holders of the Company (HKD'000)	**97,810**	133,449
Weighted average number of ordinary shares in issue (thousands shares)	**776,814**	820,058
Adjustments for share options (thousands shares) (i)	**–**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**776,814**	820,058
Diluted EPS (HKD per share)	**0.13**	0.16

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

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2012 of HKD0.03 per share (2011 – HKD0.03) was proposed pursuant to a resolution passed by the Board on 11 March 2013 and subject to the approval of the shareholders in the annual general meeting to be held on 7 May 2013. These financial statements do not reflect this dividend payable.

10. TRADE AND OTHER RECEIVABLES

	2012 *HKD'000*	2011 *HKD'000*
Trade receivables (a)	**215,109**	228,862
Less: provision for impairment of receivables (b)	**(509)**	(1,346)
Trade receivables – net	**214,600**	227,516
Amounts due from related parties	**1,055**	42
Bills receivable (c)	**38,604**	60,148
Prepayments	**3,686**	2,171
Interest receivables	**2,290**	1,671
Other receivables	**3,819**	2,975
	264,054	294,523

As at 31 December 2012, the fair value of trade and other receivables of the Group approximated their carrying amounts (2011 – same).

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

	2012	2011
	HKD'000	*HKD'000*
Renminbi Yuan ("RMB")	**138,737**	135,719
United States dollars ("USD")	**122,226**	157,092
HKD	**451**	497
Japanese Yen ("JPY")	**2,640**	1,215
	264,054	294,523

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:

Trade receivables	**2012**	2011
	HKD'000	*HKD'000*
Within 30 days	**63,113**	72,933
31 to 60 days	**57,833**	68,128
61 to 90 days	**58,387**	42,391
91 to 180 days	**33,959**	40,701
181 to 365 days	**1,507**	795
Over 365 days	**1,365**	3,956
	216,164	228,904

As at 31 December 2012, trade receivables of HKD65,801,000 (2011 – HKD73,040,000) 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:

	2012	2011
	HKD'000	*HKD'000*
Past due 1 to 90 days	**59,766**	68,966
Past due 91 to 180 days	**4,680**	1,226
Past due 181 to 365 days	**751**	2,257
Past due over 365 days	**604**	591
	65,801	73,040

As at 31 December 2012, trade receivables of HKD509,000 (2011 – HKD1,346,000) 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:

	2012	2011
	HKD'000	*HKD'000*
Past due 90 to 180 days	**–**	–
Past due 181 to 365 days	**–**	–
Past due over 365 days	**509**	1,346
	509	1,346

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

	2012	2011
	HKD'000	*HKD'000*
Opening balance	**1,346**	1,770
Write-back of impairment	**(834)**	(494)
Translation difference	**(3)**	70
Closing balance	**509**	1,346

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

Bills receivable	2012	2011
	HKD'000	*HKD'000*
Within 30 days	**6,703**	7,769
31 to 90 days	**6,774**	24,951
91 to 180 days	**25,127**	27,428
	38,604	60,148

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

	2012	2011
	HKD'000	*HKD'000*
Trade payables (a)	**113,892**	80,108
Bills payable (c)	**4,329**	37,944
Accrued expenses	**10,608**	14,216
Payroll payable	**20,717**	18,775
Other payables	**35,356**	23,720
Advance from customers	**533**	295
Other taxes payable	**1,063**	487
	186,498	175,545

As at 31 December 2012, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2011 – same).

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

	2012	2011
	HKD'000	*HKD'000*
Within 30 days	**37,867**	40,898
31 days to 60 days	**30,212**	16,221
61 days to 180 days	**41,167**	18,592
181 days to 365 days	**2,017**	724
Over 365 days	**2,629**	3,673
	113,892	80,108

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

	2012	2011
	HKD'000	*HKD'000*
RMB	**144,390**	148,994
USD	**33,906**	24,571
HKD	**7,967**	1,785
Euro	**–**	159
JPY	**235**	36
	186,498	175,545

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

Bills payable	**2012**	2011
	HKD'000	*HKD'000*
Within 30 days	**–**	6,945
31 to 90 days	**–**	13,222
91 to 180 days	**4,329**	17,777
	4,329	37,944

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. Based on our core proprietary technologies and vertically integrated business model, the Group designs, manufactures and markets our innovative optical networking products to the leading telecommunications and data communications network system vendors.

INDUSTRY AND BUSINESS REVIEW

On the industry-wide level, the overall sales for optical networking products have been flat at USD1.6 billion per quarter for the first three quarters for the year ended 31 December 2012 ("FY2012") due to the global economic uncertainty leading the telecommunications and data network operators to spend cautiously. In addition, the absence of seasonality factor supporting in the fourth quarter plus the start of a new vendor managed inventory programme in the fourth quarter which shifting inventory from optical networking equipment makers to optical networking product suppliers, combine to create a short-term shortfall in optical networking product revenue. Consequently, the optical networking product revenue in FY2012 is expected to contract by 6.3% to USD6.3 billion compared with the forecast at the beginning of FY2012.

Despite the weak industry performance, the Group managed to gain market share and recorded moderate growth in the first three quarters of FY2012 while there had been a decline in the fourth quarter of FY2012. The revenue of HKD727.4 million was recorded in FY2012, representing 8.7% growth, as compared to HKD669.4 million for the year ended 31 December 2011 ("FY2011"). Although the revenue growth of the Group slowed down during the second half of FY2012, the Group started large volume of shipments of new products in the second half of FY2012. The gross profit margin of the second half of FY2012 therefore increased to 43.3% as compared to 39.3% in first half of FY2012. Nevertheless, as the Group continued to devote strong research and development ("R&D") efforts to its core business and the new business divisions, the net profit was HKD97.8 million, representing a decrease of about 26.7% as compared to that of FY2011.

FINANCIAL REVIEW

Revenue

Revenue in FY2012 which totaled HKD727.4 million, represents an increase of HKD58.0 million, or 8.7%, compared to that of HKD669.4 million in FY2011. This growth in revenue was attributable to moderate growth in revenue during the first three quarters which was more than enough to compensate for the decline in fourth quarter revenue.

The overseas market experienced a strong growth in revenue during the first three quarters in FY2012 thanks to: (i) gain in market shares in the U.S.A. and Europe; (ii) significant investments in next-generation optical networks and expansion of the optical networks in certain Asian countries; and (iii) starting large volume of shipments of new products to certain overseas customers in the second half of FY2012, even the overseas revenue declined in the fourth quarter as the global capital expenditure for the fourth quarter changed to be much more conservative. Consequently, overseas revenue increased by 24.0% to HKD438.6 million for FY2012, representing 60.3% of its total revenues.

In the domestic market, telecommunication network carriers imposed stringent policies on their capital expenditures throughout 2012. The Group, however, managed to achieve new product qualifications from major domestic customers, and started large volume of shipments of those new products, including next-generation products in the second half of FY2012 so that a steady revenue growth was recorded compared with the second half of last year. Even though the domestic market experienced a modest growth in revenue in the second half of FY2012, as compared with same period of FY2011 and also first half of FY2012, it is unable to surpass the decline in the first half of FY2012. As a result, domestic revenue of HKD288.8 million was recorded in FY2012, representing a drop of 8.6% compared with FY2011.

Gross Profit and Gross Profit Margin

Gross profit for FY2012 was HKD300.4 million, representing an increase of HKD0.6 million, or 0.2%, from the gross profit of HKD299.8 million in FY2011. The slightly improvement of gross profit was primarily due to a reduction in gross profit margin. Gross profit, as a percentage of total revenue or gross profit margin, dropped to 41.3% in FY2012 as compared to 44.8% in FY2011. Even though the Group had continued to launch high margin new products including next-generation products into the market during the year, the drop in gross profit margin was primarily due to a higher mix of relatively lower margin legacy products and the adoption of a competitive pricing strategy in 2012.

Other Gains

Other gains in FY2012 declined by 25.4% to HKD5.0 million, from HKD6.7 million in FY2011. This drop was primarily due to the decrease in government grants by HKD0.8 million, from HKD6.0 million in FY2011 to HKD5.2 million in FY2012 and the increase in loss on disposal of property, plant and equipment by HKD0.9 million in FY2012, while nil was recorded in FY2011.

Selling and Marketing Costs

Selling and marketing costs of HKD37.1 million in FY2012 represents an increase of HKD1.9 million, or 5.3%, compared to HKD35.3 million in FY2011. The increase in selling and marketing costs in FY2012 was primarily due to the rise in overall sales personnel staff costs, which was partly offset by the decrease in effective commission rate. In FY2012, the salary and share option costs were HKD7.5 million and HKD2.1 million respectively, representing an increase of 25.9% and 12.1% respectively compared with FY2011. The increase was primarily attributable to rising wages, increased headcount in our sales team and additional cost for replacement share options granted to our sales personnel.

Selling and marketing costs as a percentage of revenue decreased to 5.1% in FY2012 as compared to 5.3% in FY2011.The decrease was mainly attributable to the decrease in effective commission rate as explained below. We generally do not incur distributor commissions for sales in China. The effective commission rate, which is the result of total commissions paid by the Group divided by total overseas revenue, was 4.2% in FY2012 and 5.2% in FY2011. The decrease in the effective commission rate was primarily due to the fact that we paid lower commissions on the legacy products sold which contributed a higher portion of the sales mix during the year.

Research and Development Expenses

In FY2012, R&D expenses increased by 43.6% to HKD73.1 million, from HKD50.9 million in FY2011. Meanwhile, R&D expenses as a percentage of revenues increased to 10.1% in FY2012 as compared to 7.6% in FY2011. This increase and the rise of its percentage of revenues were primarily attributable to stepping up our investments in R&D projects for new products and new business divisions, which includes hiring of new R&D engineers, purchasing of raw materials and fixed assets for the related R&D projects and paying service fee to R&D service providers. The rise in R&D expenses was also due to the increased in the overall R&D engineers cost during the year.

Raw material costs used by the R&D projects amounted to HKD24.0 million in FY2012, represents an increase of 21.2% from HKD19.8 million in FY2011. Meanwhile, depreciation of fixed assets in FY2012 amounted to HKD3.7 million, which is an increase of 54.2% given the corresponding figure of HKD2.4 million in FY2011. The increase of raw materials and fixed assets used for R&D projects was primarily attributable to the additional R&D projects for new products and new business divisions.

The salary and share option costs were HKD32.7 million and HKD5.4 million respectively. This equates to an increase of 60.3% and 17.4% when compared with last year. The increase was primarily attributable to rising wages, the additional cost for replacement share options granted to our R&D engineers and the increased hiring of R&D engineers including the R&D talents for new products and new business divisions.

Administrative Expenses

Administrative expenses in FY2012 were HKD93.4 million, which is 3.5% higher compared to HKD90.2 million in FY2011. The increase in administrative expenses in FY2012 was primarily attributable to the rising of salary, which was partly offset by the decrease in share option costs and low-value consumable costs. Administrative expenses as a percentage of revenues decreased to 12.8% during FY2012 as compared to 13.5% in FY2011, which is primarily attributable to our efforts in maintaining a similar cost level despite the revenue growth in FY2012.

Salary in FY2012 was HKD45.3 million and, which represents an increase of 16.5% compared with the corresponding figures in the previous year. This increase was primarily attributable to bolstering our efforts in hiring new staff.

Share option costs in FY2012 was HKD20.2 million, a decrease of 6% compared with HKD21.5 million in FY2011. The decrease was mainly due to the fact that most of the share option costs related to the options granted to our administrative staff were already fully amortized in the prior years, even there was an additional cost arose from the grant of replacement options in FY2012.

The decrease in low-value consumable cost by HKD1.5 million, from HKD4.8 million in FY2011 to HKD3.3 million in FY2012, is primarily attributable to the improvement in operating efficiency.

Finance Income

Net finance income for FY2012 amounted to HKD12.3 million, is a decrease of HKD11.8 million from HKD24.1 million in FY2011. The drop in net finance income was due to a decrease in foreign exchange gain. The foreign exchange gain was due to the appreciation of RMB. The decrease 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 changed from a vigorous gain in 2011 to a more modest gain in 2012.

Profit Before Tax and Profit Before Tax Margin

Profit before tax decreased by HKD40.1 million from HKD154.2million for FY2011 to HKD114.1 million for FY2012. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 23.0% for FY2011 to 15.7% for FY2012. The decrease in profit before tax and profit before tax margin for the year was primarily due to a decline in gross profit margin and an increase in certain operating expenses 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 FY2012 amounted to HKD16.3 million, represents a drop of HKD4.4 million, or 21.3% from the income tax expense of HKD20.7 million in FY2011. The drop in income tax expenses was primarily due to a decline in net profit before tax in FY2012.

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

In FY2012, profit attributable to equity holders decreased by HKD35.6 million to HKD97.8 million, as compared to HKD133.4 million in FY2011. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, decreased from 19.9% in FY2011 to 13.4% in FY2012. The decrease in profit attributable to equity holders and net profit margin for FY2012 was primarily due to the decrease in gross profit margin and an increase in certain operating 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 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.

	Year end 2012 *HKD'000*	Year end 2011 *HKD'000*
Adjustment to measure non-GAAP gross profit		
Gross Profit	**300,439**	299,836
Adjustment related to cost of sales		
Provision for inventories provision	**1,842**	2,820
Non-GAAP Gross Profit	**302,281**	302,656
Adjustment to measure non-GAAP net profit		
Net profit	**97,810**	133,449
Adjustment related to cost of sales		
Provision for inventories	**1,842**	2,820
Adjustments to measure to operating expenses		
Share options granted to Directors, employees and sales distributors	**27,622**	27,864
Amortization of intangible assets	**871**	871
Non-GAAP Net Profit	**128,145**	165,004
Non-GAAP EPS		
– Basic	**0.16**	0.20
– Diluted	**0.16**	0.20
Gross Profit Margin	**41.3%**	44.8%
Non-GAAP Gross Profit Margin	**41.6%**	45.2%
Net Profit Margin	**13.4%**	19.9%
Non-GAAP Net Profit Margin	**17.6%**	24.7%

Non-GAAP Profit Analysis

Non-GAAP net profit for FY2012 was HKD128.1 million, or HKD0.16 per share, compared to non-GAAP net profit of HKD165.0 million, or HKD0.20 per share, reported for FY2011. Non-GAAP results for FY2012 exclude 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. Non-GAAP results for FY2011 exclude HKD2.8 million in provision for excess and obsolete inventory, HKD27.9 million in share options granted to Directors and employees expenses and HKD0.9 million in amortization of intangible assets.

FUTURE PROSPECTS

Global economic conditions remain uncertain in year 2013 which is likely to affect the telecommunications market. To this end, the Group's new strategy is to maintain the stable growth of its core business in optical networking products industry, and to allocate sufficient resources for diversification into various selected market segments. Through launching new products, and diversification, the Group is confident it can achieve stable growth in 2013.

Products Development and Maintain Stable Business Growth

The Group will continue to escalate efforts to launch new products so as to strengthen its competitiveness and to improve its scope for growth. After careful analysis of market changes and customer demand by leveraging the trend of the global optical networking products industry, the Group will continue to deploy more resources to developing new optical networking products. Through launching a steady stream of new products, the Group will strive to enhance its market share and maintain stable business growth. Besides, the Group will continue to allocate more resources to strengthen its R&D capability for next-generation products development. Leveraging its R&D strategy, the Group will aim to create new growth drivers through launching next-generation products in a timely manner and boosting competitive advantages within the respective products series while providing customers with top quality next-generation products.

Strengthen Development in new business divisions

The Group is adopting a growth strategy characterised by diversification and continues to develop and deploy new technologies and their applications to meet market demand and trends. Regarding the application of automation technology, the Group received its first order by the automation division on December 2012, and the tailor-made automation equipment was successfully developed and delivered to the customer on January 2013. Besides, emphasis would also continue on fiber laser technology application. The 10 watts and 20 watts fiber laser products would be launched in March 2013. The Group believes that with the success of the first order in the automation division and the debut of fiber laser products, the new business divisions could become new sources of income and drive our continued success in the future.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the Company's issued share capital was HKD7.6 million divided into 755,549,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,388.7 million (31 December 2011: HKD1,369.9 million). The Group had current assets of HKD1,096.2 million and current liabilities of HKD199.9 million and the current ratio was 5.5 times as at 31 December 2012 (31 December 2011: 6.5 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 2012 and 2011 since the Group did not have any borrowing.

As of 31 December 2012, the Group had cash and cash equivalents of approximately HKD558.9 million (31 December 2011: HKD768.6 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 possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

During the year ended 31 December 2012, the Company repurchased and cancelled its own shares at a total consideration of HKD81.8 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 31 December 2012, HKD12.7 million bank deposits was 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 HKD2.9 million as guarantee for bills payables due to raw material suppliers.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

During the year ended 31 December 2012, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2012, the Group had contractual capital commitments of approximately HKD118.3 million (31 December 2011: HKD68.9 million). As of 31 December 2012, 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 2012, 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 HKD237.9 million (31 December 2011: HKD174.7 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 is 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 2012, the Group had a total of 2,350 employees (31 December 2011: 1,970). The Group's staff costs (including Directors' fees) amounted to HKD225,975 million (31 December 2011: HKD177.6 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. During the year ended 31 December 2012, options in aggregate of 35,851,000 were granted to 3 Directors and 307 employees of the Group (31 December 2011: options in aggregate of 20,868,000 were granted to 2 Directors and 316 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 resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 7 May 2013 ("2013 AGM") a final dividend of HKD0.03 (2011: HKD0.03) per share to be paid on Tuesday, 21 May 2013 to those shareholders whose names appear on the register of members of the Company on Friday, 10 May 2013. The final dividend will amount to approximately HKD22,666,000 (2011: HKD24,000,000).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Friday, 3 May 2013 to Tuesday, 7 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2013 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 Thursday, 2 May 2013.

For determining the entitlement of the shareholders to the final dividend, the register of members of the Company will be closed on Friday, 10 May 2013, no transfer of shares will be registered on that date. In order to qualify for the proposed final dividend, 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 for registration not later than 4:30 p.m. on Thursday, 9 May 2013.

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 2012.

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

As at 31 December 2012, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2012, the Company repurchased 44,438,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.59 to HKD2.06 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*
May 2012	14,144,000	1.88	1.63	24,916,001.20
June 2012	10,999,000	2.04	1.78	21,451,817.90
July 2012	14,836,000	2.06	1.75	27,579,414.00
August 2012	4,459,000	1.80	1.59	7,837,464.60
	44,438,000			81,784,697.70

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") set out in Appendix 10 to the Rules 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 throughout the year.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 to the Listing Rules, which came into effective on 1 January 2005 and was revised and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code") with effect from 1 April 2012.

During the year ended 31 December 2012, the Company was in compliance with all the code provisions set out in the Former CG Code and the New CG Code except for the deviations from code provision A.2.1 which is explained below.

Under code provision A.2.1 of the Former CG Code and the New CG Code, the responsibilities between the chairman ("Chairman") and chief executive officer ("CEO") should be divided. The Company has a CEO, Mr. Na Qinglin, and he currently also performs as 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 Former CG Code and the New CG Code during the year ended 31 December 2012.

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 2012 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the Former CG Code and was revised on 30 March 2012 to comply with the New CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2012 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.

CHANGE OF USE OF PROCEEDS

Reference is made to (i) the prospectus of the Company dated 19 April 2010 (the "Prospectus") relating to the initial public offering and international placing of the Company's shares (the "Global Offering") for the listing of the Company's shares on the Main Board of the SEHK; (ii) the interim report of the Company for the six months ended 30 June 2012; and (iii) the announcement of the Company dated 13 November 2012.

As stated in the section headed "Future Plans and Use of Proceeds – Use of Proceeds" of the Prospectus that approximately HKD137.0 million of the net proceeds from the Global Offering is to be used for potential acquisition of companies, businesses, assets or teams for the purpose of enhancing the positions of the Company in China and overseas markets ("M&A").

In order to meet the growing demand on the optical networking products, O-Net Communications (Shenzhen) Limited, an indirect wholly-owned subsidiary of the Company, has entered into a construction contract with 深圳市華誠通建築工程有限公司 (Shenzhen Huacheng Tong Construction Engineering Company Limited) on 13 November 2012 for the construction of the new factory buildings on the piece of land owned by the Group which is located in the industrial zone of the Group at Cuijing Road, Pingshan Industrial Zone, Longgang District, Shenzhen, The PRC at a construction cost of approximately RMB65,977,587.10 (the "Construction Cost") for additional production lines.

In the absence of suitable acquisition targets for the time being, the Board resolved to utilize part of the proceeds for the M&A to satisfy in full the Construction Cost in order to better utilize the resources of the Group.

The Directors (including all independent non-executive Directors) consider that the abovementioned change of use of net proceeds from the Global Offering can effectively utilize the resources in coping with the growing demand for the Group's products, which are in the interest of the Company and its shareholders as a whole.

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

Hong Kong, 11 March 2013

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.