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 2011

RESULTS

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 2011. 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	
		2011	2010
	Note	***HKD'000***	*HKD'000*
Revenue	*4*	**669,381**	660,577
Cost of sales	*5*	**(369,545)**	(322,761)
Gross profit		**299,836**	337,816
Other gains – net	*4*	**6,661**	1,125
Selling and marketing costs	*5*	**(35,275)**	(33,035)
Research and development expenses	*5*	**(50,854)**	(31,828)
Administrative expenses	*5*	**(90,241)**	(67,305)
Operating profit		**130,127**	206,773
Finance income	*6*	**24,244**	4,648
Finance costs	*6*	**(176)**	(7,692)
Finance income/(costs) – net	*6*	**24,068**	(3,044)
Profit before income tax		**154,195**	203,729
Income tax expenses	*7*	**(20,746)**	(22,120)
Profit for the year		**133,449**	181,609
Profit attributable to:			
Equity holders of the Company		**133,449**	181,609
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	*8*	**0.16**	0.25
– Diluted	*8*	**0.16**	0.25
Dividend	*9*	**24,000**	–

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

		As at 31 December	
		2011	2010
	Note	***HKD'000***	*HKD'000*
ASSETS			
Non-current assets			
Land use right		**29,541**	28,765
Property, plant and equipment		**240,091**	82,260
Intangible assets		**500**	710
Deferred income tax assets		**4,019**	2,911
		274,151	114,646
Current assets			
Inventories		**115,450**	114,577
Trade and other receivables	*10*	**294,523**	270,926
Pledged bank deposits		**66,253**	26,971
Term deposits with initial term of over three months		**50,700**	382,877
Cash and cash equivalents		**768,643**	507,812
		1,295,569	1,303,163
Total assets		**1,569,720**	1,417,809
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital		**8,000**	8,331
Reserves		**1,361,894**	1,241,011
Total equity		**1,369,894**	1,249,342
LIABILITIES			
Current liabilities			
Trade and other payables	*11*	**175,545**	143,540
Current income tax liabilities		**24,281**	24,927
		199,826	168,467
Total liabilities		**199,826**	168,497
Total equity and liabilities		**1,569,720**	1,417,809
Net current assets		**1,095,743**	1,134,696
Total assets less current liabilities		**1,369,894**	1,249,342

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2011	2010
	HKD'000	*HKD'000*
Profit for the year	**133,449**	181,609
Other comprehensive income		
Currency translation differences	**33,351**	19,524
Total comprehensive income for the year	**166,800**	201,133
Total comprehensive income attributable to:		
Equity holders of the Company	**166,800**	201,133

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 13 March 2012.

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 2011.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual periods beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government.

- Amendment to HKAS 32 "Classification of rights issues" is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to HK(IFRIC) – Int 14 "Prepayments of a minimum funding requirement" is effective for annual period beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- HK(IFRIC) – Int 19 "Extinguishing financial liabilities with equity instruments" is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Amendment to HKFRS 1 "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters". The amendment is to provide first-time adopters with the same transition provisions as included in the March 2009 amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. It is effective for annual periods beginning on or after 1 July 2010 but there is no impact on the Company because it is not a first time adopter of HKFRS.

- Annual improvement project published in 2010 to amend the following standards:

  – HKFRS 7 'Financial Instruments: Disclosures'

  – HKAS 1 'Presentation of Financial Statements'

  – Transition requirements for amendments arising as a result of HKAS 27 'Consolidated and Separate Financial Statements'

  – HKAS 34 'Interim Financial Reporting'

  – HK(IFRIC) – 'Int 13 Customer Loyalty Programmes'

  – HKFRS 1 'First-time Adoption of Hong Kong Financial Reporting Standards'

  – HKFRS 3 (Revised) 'Business Combinations'

The amendments do not have significant impact on the Group's consolidated financial statements.

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:

	Effective for annual periods beginning on or after
HKFRS 1 'Severe hyperinflation and removal of fixed dates for first-time adopters' – Amendment	1 July 2011
HKFRS 7 'Disclosures – Transfers of financial assets' – Amendment	1 July 2011
HKFRS 9 'Financial instruments' – Classification and Measurement	1 January 2015
HKFRS 10 'Consolidated financial statements' – Amendment	1 January 2013
HKFRS 11 'Joint arrangements' – Amendment	1 January 2013
HKAS 12 'Deferred tax: Recovery of underlying assets' – Amendment	1 January 2012
HKFRS 12 'Disclosures of interests in other entities' – Amendment	1 January 2013
HKFRS 13 'Fair value measurement' – Clarification	1 January 2013
HKAS 1 'Presentation of financial statements' – Amendment	1 July 2012
HKAS 19 'Employee benefits' – Amendment	1 January 2013
HKAS 28 'Investment in associates and joint ventures' – Amendment	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 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.

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 2011 (2010 – same).

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

	2011	2010
	HKD'000	*HKD'000*
The PRC	**315,671**	312,682
Europe	**199,951**	166,955
North America	**31,178**	57,374
Other Asia countries excluding the PRC	**122,581**	123,566
	669,381	660,577

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 December 2011 and 2010 are as follows:

	2011	2010
	HKD'000	*HKD'000*
The PRC	**270,015**	111,575
Hong Kong	**117**	160
	270,132	111,735

(c) During the year ended 31 December 2011, revenue derived from sales made to two (2010 – two) single external customers amounted to approximately 35% (2010 – 33%) 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 2011 and 2010 are as follows:

	2011	2010
	HKD'000	*HKD'000*
Revenue		
Sales of goods	**669,381**	660,577
Other gains – net		
Government grants *(Note a)*	**6,026**	351
Gain on sales of scrapped or surplus raw materials	**651**	928
Gain on disposal of property, plant and equipment, net	**12**	–
Others	**(28)**	(154)
	6,661	1,125
Total	**676,042**	661,702

Note a: The government grants were mainly received from the Finance Committee of Shenzhen Municipality as a subsidy to award the achievements of O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen") in its technology development.

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:

	2011	2010
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to Directors and employees	**149,754**	106,526
Share option expenses		
– For options granted to sales distributors	**–**	367
– For options granted to Directors and employees	**27,864**	11,220
Raw materials consumed	**290,662**	284,953
Changes in inventories of finished goods and work in progress	**(14,766)**	(24,259)
Depreciation	**24,472**	13,831
Amortization	**871**	807
(Write back of)/provision for impairment provision for doubtful receivables	**(494)**	94
Provision for/(write back of) write-down of inventories	**2,820**	(1,073)
Sales commissions	**18,473**	19,616
Utilities charges	**16,512**	13,286
Operating lease rental	**10,145**	8,368
Freight charges	**5,032**	4,452
Auditors' remuneration	**2,298**	2,298
Professional expenses	**2,056**	5,407
Travelling expenses	**2,119**	2,059
Advertising costs	**1,187**	859
Others	**6,910**	6,118
	545,915	454,929

6. FINANCE (INCOME)/COSTS – NET

	2011 *HKD'000*	2010 *HKD'000*
Finance income		
– Interest income derived from bank deposits	**(12,904)**	(4,648)
– Exchange (gain)/loss	**(11,340)**	7,692
Finance costs		
– Interest expenses on bank borrowings	**176**	–
Finance (income)/costs – net	**(24,068)**	3,044

7. INCOME TAX EXPENSES

	2011 *HKD'000*	2010 *HKD'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**2,698**	–
– PRC enterprise income tax *(Note c)*	**19,016**	24,052
Total current income tax	**21,714**	24,052
Deferred income tax	**(968)**	(1,932)
Income tax expenses	**20,746**	22,120

Note:

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

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

After promulgation of the New PRC EIT Law, the "5-Year Tax Concession" enjoyed by O-Net Shenzhen could be continued to be applied. As the first profit making year of O-Net Shenzhen after offsetting of cumulative carry-forward losses is 2006, 2010 was the last year that O-Net Shenzhen could enjoy the "5-Year Tax Concession" (being 50% of the enacted EIT rate of 22% for 2010).

In addition, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It 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:

	2011	2010
	HKD'000	*HKD'000*
Profit before income tax	**154,195**	203,729
Tax calculated at statutory tax rates applicable to entities comprising the Group	**37,007**	44,820
Tax effect of:		
Preferential tax concession	**(23,028)**	(25,345)
Expenses not deductible for tax purposes		
– Share option expenses	**6,687**	2,549
– others	**80**	96
Income tax expenses	**20,746**	22,120

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.

	2011	2010
Profit attributable to equity holders of the Company *(HKD'000)*	**133,449**	181,609
Weighted average number of ordinary shares in issue *(thousands)*	**820,058**	720,144
Basic EPS *(HKD per share)*	**0.16**	0.25

(b) Diluted

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

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

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

	2011	2010
Profit attributable to equity holders of the Company *(HKD'000)*	**133,449**	181,609
Weighted average number of ordinary shares in issue *(thousands shares)*	**820,058**	720,144
Adjustments for share options *(thousands shares)*	**–**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)*	**820,058**	720,144
Diluted EPS *(HKD per share)*	**0.16**	0.25

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2011 of HKD0.03 per share (2010 – Nil) was proposed pursuant to a resolution passed by the Board on 13 March 2012 and subject to the approval of the shareholders in the annual general meeting to be held on 8 May 2012. These financial statements do not reflect this dividend payable.

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	HKD'000	*HKD'000*
Trade receivables *(Note a)*	**228,862**	222,093
Less: provision for impairment of receivables *(Note b)*	**(1,346)**	(1,770)
Trade receivables – net	**227,516**	220,323
Amounts due from related parties	**42**	–
Bills receivables *(Note c)*	**60,148**	39,902
Prepayments	**2,171**	2,732
Interest receivables	**1,671**	3,984
Other receivables	**2,975**	3,985
	294,523	270,926

As at 31 December 2011, the fair value of trade and other receivables of the Group approximated their carrying amounts (2010 – same).

Note:

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

	2011	2010
	HKD'000	*HKD'000*
RMB	**135,719**	131,941
USD	**157,092**	129,404
HKD	**497**	1,431
JPY	**1,215**	8,150
	294,523	270,926

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

Trade receivables

	2011	2010
	HKD'000	*HKD'000*
Within 30 days	**72,933**	93,426
31 to 60 days	**68,128**	58,083
61 to 90 days	**42,391**	27,014
91 to 180 days	**40,701**	32,371
181 to 365 days	**795**	9,179
Over 365 days	**3,956**	2,020
	228,904	222,093

As at 31 December 2011, trade receivables of HKD73,040,000 (2010 – HKD61,262,000) were past due but not impaired. They relate to a number of independent customers that have good reputation and good trading and settlement history maintained with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances since there has not been any significant changes in their credit quality and the balances are considered fully recoverable. The aging analysis of these past due trade receivables is as follows:

	2011	2010
	HKD'000	*HKD'000*
Past due 1 to 90 days	**68,966**	48,815
Past due 91 to 180 days	**1,226**	9,904
Past due 181 to 365 days	**2,257**	2,254
Past due over 365 days	**591**	289
	73,040	61,262

As at 31 December 2011, trade receivables of HKD1,346,000 (2010 – HKD1,770,000) were impaired. All these balances had been fully provided for impairment losses. The aging of these trade receivables is based on invoice date as follows:

	2011	2010
	HKD'000	*HKD'000*
Past due 90 to 180 days	**–**	1
Past due 181 to 365 days	**–**	52
Past due over 365 days	**1,346**	1,717
	1,346	1,770

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

	2011	2010
	HKD'000	*HKD'000*
Opening balance	**1,770**	1,622
(Write-back of)/provision for impairment	**(494)**	94
Exchange difference	**70**	54
Closing balance	**1,346**	1,770

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

Bills receivables

	2011	2010
	HKD'000	*HKD'000*
Within 30 days	**7,769**	10,548
31 to 90 days	**24,951**	8,656
91 to 180 days	**27,428**	20,698
	60,148	39,902

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

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

11. TRADE AND OTHER PAYABLES

	2011	2010
	HKD'000	*HKD'000*
Trade payables *(Note a)*	**80,108**	118,208
Bills payable *(Note c)*	**37,944**	–
Accrued expenses	**14,216**	10,604
Payroll payable	**18,775**	9,021
Other payables	**23,720**	317
Advance from customers	**295**	563
Other taxes payable	**487**	4,827
	175,545	143,540

As at 31 December 2011, the fair value of trade and other payables of the Group approximated their carrying amounts due to their short maturities (2010 – same).

Note:

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

	2011	2010
	HKD'000	*HKD'000*
Within 30 days	**40,898**	45,306
31 days to 60 days	**16,221**	21,692
61 days to 180 days	**18,592**	42,503
181 days to 365 days	**724**	5,101
Over 365 days	**3,673**	3,606
	80,108	118,208

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

	2011	2010
	HKD'000	*HKD'000*
RMB	**148,994**	107,839
USD	**24,571**	33,930
HKD	**1,785**	1,676
Euro	**159**	–
JPY	**36**	95
	175,545	143,540

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

	2011	2010
	HKD'000	*HKD'000*
Within 30 days	**6,945**	–
31 days to 90 days	**13,222**	–
91 days to 180 days	**17,777**	–
	37,944	–

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has focused on the research, development, manufacture and sale of passive optical products which include sub-components, components, modules and sub-systems mainly used in broadband and fiber optic network systems. Based on our core proprietary technologies and vertically integrated business model, the Group designs, manufactures and markets its innovative optical products to leading telecommunications system vendors.

INDUSTRY AND BUSINESS REVIEW

2011 was a challenging year for O-Net. Nevertheless, the Group managed to generate growth in revenue for the financial year ended 31 December 2011 ("FY2011").

Industry Review

On an industry-wide level, the overall demand for optical components dropped in 2011 due to several reasons. Firstly, macroeconomic uncertainties, including those that were brought about by the European debt crisis affected our industry. The Group, as one of the major players in the optical products industry, was not immune to such an influence. Secondly, industry-wide inventory correction took place in 2011. As telecommunication equipment makers overstocked inventory in 2010 and in the first quarter of 2011, the Group experienced a significant cut back in customer orders in the second quarter of the year. This caused a drop in sales revenue in the second and third quarters of the year. Lastly, the Japan Earthquake as well as the severe floods that occurred in Thailand during the year also took their toll on the optical components industry.

Despite the challenges that the Group faced in 2011, the overall global demand for O-Net's products remained strong in 2011. Sales improved in the second half of the year as inventory correction subsided in the third quarter, and was over by the fourth quarter of the year. In addition, the Group gained market share from its competitors as the severe flooding that took place in Thailand during the second half of the year suspended the competitors' production and consequently, the Group received additional orders in the fourth quarter of 2011. The Group expects the growth opportunity stemming from the flooding in Thailand to continue into the first quarter of 2012.

Business Review

At the Group level, there were a couple of factors that affected the Group's growth in FY2011. One of the factors was the new product development issues which encompassed the Tunable Dispersion Compensator ("TDC"). As the yield issue pertaining to the TDC was resolved via the redesign and rigorous qualification process which took place during the year, the Group had made small volume shipments of this product to customers up to the end of the year. The Group believes that it will be able to make larger volume shipments to customers in 2012, especially after the improved and redeveloped TDC is qualified by more customers in the near future.

Another factor that dampened the Group's growth in FY2011 was the investment made in growing the research and development ("R&D") team and the increased investment on R&D projects during the year. Specifically, these investments have eroded the Group's bottom line growth in FY2011. As a technology driven company, the Group plans to maintain its strong market position by continuing to focus on the R&D of new products. Such R&D investments are crucial for the Group's future growth and development. Investing in key R&D areas is also expected to benefit the Group by enabling the Group to enhance the overall R&D function, develop more new products, develop products at a faster rate, as well as significantly improve the Group's product innovation capabilities.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2011 which totalled HKD669.4 million, represents an increase of HKD8.8 million compared to revenue of HKD660.6 million for the year ended 31 December 2010 ("FY2010"). This growth in revenue was attributable to strong growth in first quarter revenue which was more than enough to compensate for the decline in second quarter revenue. The steady improvement in demand in the second half of the year also contributed to the rise in revenue in FY2011.

Gross Profit and Gross Profit Margin

Gross profit for FY2011 was HKD299.8 million representing a decline of HKD38.0 million, or 11.2%, from the gross profit of HKD337.8 million in FY2010. Gross profit, as a percentage of total revenue or gross profit margin, dropped to 44.8% in FY2011 as compared to 51.1% in FY2010. During the year, although revenue had slightly improved, gross profit margin suffered a negative growth when compared with the previous year. Even though the Group had continued to launch more new products into the market during the year including next-generation products, the drop in gross profit margin was primarily due to a higher mix of relatively lower margin legacy products, including the products that were related to the FTTx optical network systems and the products that were strongly demanded by customers due to the severe floods in Thailand.

Other Gains

Other gains in FY2011 grew by 492.1% to HKD6.7 million, from HKD1.1 million in FY2010. This growth was primarily due to the increase in government grants by HKD5.6 million from HKD0.4 million to HKD6.0 million in FY2011.

Selling and Marketing Costs

Selling and marketing costs of HKD35.3 million in FY2011 represents an increase of HKD2.3 million, or 6.3%, compared to the selling and marketing costs of HKD33.0 million in FY2010. Selling and marketing costs as a percentage of revenue increased to 5.3% in FY2011 as compared to 5.0% in FY2010. The increase in selling and marketing costs in FY2011 was primarily due to the rise in overall sales personnel staff costs, even the sales commission we paid to our sales distributors around the world decreased.

Sales commissions in FY2011 was HKD18.5 million. This represents a decrease of HKD1.1million, or 5.8%, from HKD19.6 million in the previous year. We generally do not incur distributor commission for sales in China. The effective commission rate, which is the result of total commissions paid by the Group divided by total overseas revenue, was 5.2% in FY2011 and 5.6% in FY2010. The decrease in sales commission and the effective commission rate were primarily due to the fact that we paid lower commissions on the legacy products sold which contributed a higher sales mix during the year. The reduction in the commission rate paid to distributors in FY2011 also contributed to the decrease in sales commission for FY2011.

In FY2011, the salary and share option costs were HKD6.0 million and HKD1.8 million respectively, representing an increase of 66.3% and 36.3% compared with FY2010. The increase was primarily attributable to rising wages and additional share options granted to our sales personnel.

Research and Development Expenses

In FY2011, R&D expenses increased by 59.8% to HKD50.9 million, from HKD31.8 million in FY2010. Meanwhile, R&D expenses as a percentage of revenues increased to 7.6% in FY2011 as compared to 4.8% in FY2010. This increase and its percentage of revenues were primarily attributable to stepping up our investments in the new products R&D projects, which includes the purchase of raw materials and equipments for the related R&D projects. The rise in R&D expenses was also due to the hiring of R&D engineers and increasing the overall R&D engineers cost during the year.

Raw material costs used by the R&D projects amounted to HKD19.8 million in FY2011. This represents an increase of 27.6% from HKD15.5 million in FY2010. Meanwhile, depreciation of fixed assets in FY2011 amounted to HKD2.4 million, which is an increase of 91.9% given the corresponding figure of HKD1.3 million in FY2010. The increase of raw materials and fixed assets used for the R&D projects was primarily attributable to the additional R&D projects for new products that the Group undertook during the year, particularly the next generation products in the 40G and 100G areas.

The salary and share option costs were HKD20.4 million and HKD4.6 million respectively. This equates to an increase of 79.4% and 181.0% when compared with last year. The increase was primarily attributable to the increased hiring of R&D engineers, rising wages and the additional share options granted to our R&D engineers.

Administrative Expenses

Administrative expenses in FY2011 were HKD90.2 million, which is 34.1% higher compared to HKD67.3 million in FY2010. Administrative expenses as a percentage of revenues increased to 13.5% during FY2011 as compared to 10.2% in FY2010. The increase in administrative expenses in FY2011 and its percentage of revenue was primarily attributable to the increasing overall staff costs including the result of expansion in operation scale.

The salary and share options cost in FY2011 were HKD38.9 million and HKD21.5 million respectively, which represents an increase of 45.2% and 147.5% compared the corresponding figures in the previous year. This increase was primarily attributable to our strengthened efforts in hiring new staff, rising wages and the additional share options granted to our staff.

Finance Income

Net finance income for FY2011 which amounted to HKD24.1 million, is an increase of HKD27.1 million from the net finance cost of HKD3.0 million in FY2010. The rise in net finance income was due to the increase in bank interest income and foreign exchange gain. The growth in bank interest income as represented by the HKD8.3 million figure was primarily attributable to the net proceeds from the IPO and the share placement on 15 November 2010 (the "Placement") being deposited as term deposits during the year. The increase in exchange gain of HKD19.0 million was primarily attributable to the fact that most of the cash was held in RMB rather than the functional currency of the Company.

Profit Before Tax and Profit Before Tax Margin

Profit before tax decreased by HKD49.5 million from HKD203.7 million for FY2010 to HKD154.2 million for FY2011. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 30.8% for FY2010 to 23.0% for FY2011. The decrease in profit before tax and profit before tax margin for the year was primarily due to decrease in gross profit margin and increase in 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 the PRC EIT purpose.

Income tax expenses in FY2011 amounted to HKD20.7 million. This represents a drop of HKD1.4 million, or 6.2% from the income tax expense of HKD22.1 million in FY2010. The drop in income tax expenses was primarily due to a decline in net profits before tax in FY2011, even the enacted tax rate of the Group's subsidiary located in the PRC, O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen"), rose from 11% in FY2010 to 15% in FY2011.

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

In FY2011, profit attributable to equity holders decreased by HKD48.2 million to HKD133.4 million, as compared to HKD181.6 million in FY2010. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, decreased from 27.5% in FY2010 to 19.9% in FY2011. The decrease in profit attributable to equity holders and net profit margin for FY2011 was primarily due to the decrease in gross profit margin plus an increase in operating expenses and the enacted tax rate 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 United States, 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 ended 31 December	
	2011	2010
	HKD'000	*HKD'000*
Adjustment to measure non-GAAP gross profit		
Gross Profit	**299,836**	377,816
Adjustment related to cost of sales		
Provision for/(write back of) inventories provision	**2,820**	(1,073)
Non-GAAP Gross Profit	**302,656**	336,743
Adjustment to measure non-GAAP net profit		
Net profit	**133,449**	181,609
Adjustment related to cost of sales		
Provision for/(write back of) inventories provision	**2,820**	(1,073)
	136,269	180,536
Adjustments to measure to operating expenses		
Share options granted to Directors, employees and sales distributors	**27,864**	11,587
Amortization of intangible assets	**871**	807
Non-GAAP Net Profit	**165,004**	192,930
Non-GAAP EPS		
– Basic	**0.20**	0.27
– Diluted	**0.20**	0.27
Gross Profit Margin	**44.8%**	51.1%
Non-GAAP Gross Profit Margin	**45.2%**	51.0%
Net Profit Margin	**19.9%**	27.5%
Non-GAAP Net Profit Margin	**24.7%**	30.2%

Non-Gaap Profit Analysis

Non-GAAP net income for FY2011 was HKD165.0 million, or HKD0.20 per share, compared to non-GAAP net income of HKD202.6 million, or HKD0.28 per share, reported for FY2010. 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. Non-GAAP results for FY2010 exclude HKD1.0 million in reversal of excess and obsolete inventory, HKD21.2 million in share options granted to Directors and employees expenses and HKD0.8 million in amortization of intangible assets.

RESEARCH AND DEVELOPMENT

The R&D function is critical for the future development of the Group. During the year, the Group introduced the following 'Three Strategic Initiatives' for implementing its expansion and improvement in its R&D function.

Initiative 1: Strengthen the R&D team

The Group has always regarded its people as one of its greatest assets. In order to maintain its competitiveness in the rapidly changing passive optical products market, the Group has been continuously strengthening its R&D team by providing quality training programs to the R&D employees and recruiting the best R&D talent. To this end, the Group had hired a new Head of R&D. With all the new talent we have injected into our R&D team, this has enhanced our R&D capabilities considerably, including our ability to innovate and develop high quality, innovative products that are sought by the global market. As such, we view our strong R&D team as a key competitive advantage in propelling the Group to a higher level of growth.

Initiative 2: Restructuring the R&D process

Through the R&D restructuring process that took place in 2011, significant improvements were made to our product development processes including strengthened R&D responsiveness to marketing requests and the redefinition of the roles of project leaders. The improved R&D processes are expected to prevent the reoccurrence of the product development issues in the future. The Group believes that the enhancements made in this area will place the Group on a firmer footing for future growth.

Initiative 3: On-going Development of New Products

Each year, the Group launches new products into the optical networking industry. Next-generation product development, being the growth engine of the Group, has always been the focus of our R&D investment. In 2011, there were a total of 331 new products that the Group launched into the adjacent market.

Apart from generating growth in its existing markets, the Group also aims to capture growth opportunities in new markets. To this end, the Group had already started its R&D of non-telecommunication products such as fiber laser products and industrial automation products, which formed new product categories of the Group. This strategic move will allow the Group to expand into new business sectors that could become new sources of income for the Group in the future.

PROSPECTS FOR FUTURE GROWTH

With our vision firmly set on generating strong returns for the Group and the Company's stakeholders, preparations have been underway for the opening of a new manufacturing plant located in Pishan District, Shenzhen City, China by 2012. After the grand opening of the new manufacturing plant, the Group plans to implement its strategic plan for leveraging its R&D function to generate growth in its core businesses. At the new manufacturing plant, there will be a new R&D Centre that features cutting-edge optical technology, new, state-of-the-art R&D equipment and a brand new R&D laboratory for conducting research activities and strengthening the product innovation capacity. Another key advantage the Group will gain from the new manufacturing plant is improved operating efficiency which will kick in after the new, state-of-the-art, automation manufacturing equipment is up and running. Adopting a higher level of automation in the new manufacturing process also benefits the Group in terms of reduced labor costs as some of the traditional production staff can be replaced, and more importantly, the higher level of automation will lessen our reliance on the supply of skilled operators over the long-term.

On the telecommunication business front, we are fully committed to growing our existing core businesses. As part of our overall growth strategy, we plan to further enlarge our customer base, leverage our R&D by innovating and bringing new, high margin products to the market, as well as continuously explore new areas to apply our core technology platforms. The Group has set up a solid technology and product roadmap for the next three years to meet the growing demand of customers for future telecommunication networks. In the future, the Group will continue to innovate and manufacture high margin products for generating growth. With these key initiatives in place, and with the Group's competitive strengths of a solid track record, strong customer base and vertical integration advantages, the Group is well-positioned for future growth.

Moving forward, the Group plans to be a well-diversified high-technology leader in the global optical marketplace. To develop its business in this direction, in addition to developing the current businesses, the Group will continue to diversify into new, promising adjacent markets by leveraging its existing technology platforms. To this end, the Group had already made progress in the fiber laser market by developing fiber laser products for industrial machineries. With respect to business diversification, aside from our entry into the fiber laser market, the Group had also conducted in-depth marketing research on various new market opportunities such as industrial automation and visual inspection technologies for furthering business diversification in aim of achieving groundbreaking growth for O-Net. With the vast amount of intellectual properties and know-how that the Group has accumulated in the optical, mechanical, electronic and software areas, covering not just telecommunication, but many other applications, the Group plans to fully leverage such expertise for expanding cautiously and consistently to generate solid growth in the future.

GROUP'S LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Company's issued share capital was HKD8.0 million divided into 799,987,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,369.9 million (31 December 2010: HKD1,249.3 million). The Group had current assets

HKD1,295.6 million and current liabilities of HKD199.8 million and the current ratio was 6.5 times (31 December 2010: 7.7 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 2011 and 2010 since the Group did not have any borrowing.

As of 31 December 2011, the Group had cash and cash equivalents of approximately HKD768.6 million (31 December 2010: HKD507.8 million). The significant increase was due to the proceeds transferred from term deposits which were expired 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, the Company repurchased and cancelled its own shares at a total consideration of HKD73.7 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 31 December 2011, HKD28.3 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 HKD37.9 million as guarantee for bills payables due to raw material suppliers.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

During the year ended 31 December 2011, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 31 December 2011, the Group had contractual capital commitments of approximately HKD68.9 million. As of 31 December 2011, 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 2011, 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 HKD174.7 million (31 December 2010: HKD53.6 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 BENEFITS

As at 31 December 2011, the Group had a total of 1,970 employees (31 December 2010: 2,088). The Group's staff costs (including Directors' fees) amounted to HKD177.6 million (31 December 2010: HKD117.7 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 2011, options in aggregate of 20,868,000 were granted to 2 Directors and 316 employees of the Group (31 December 2010: options in aggregate of 30,648,000 were granted to 5 Directors and 315 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 had resolved to recommend to the shareholders of the Company at the forthcoming Annual General Meeting of the Company to be held on Tuesday, 8 May 2012 ("2012 AGM") a final dividend of HKD0.03 (2010: Nil) per share to be paid on Tuesday, 22 May 2012 to those shareholders whose names appear on the register of members of the Company on Monday, 14 May 2012. The final dividend will amount to approximately HKD24,000,000 (2010: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2012 AGM, the register of members of the Company will be closed from Friday, 4 May 2012 to Tuesday, 8 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2012 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, 3 May 2012.

For determining the entitlement to the final dividend, the register of members of the Company will be closed on Monday, 14 May 2012, no transfer of shares will be registered on that date. In order to qualify for the proposed final dividend, all transfers of shares accompanies 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 Friday, 11 May 2012.

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 2011.

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

As at 31 December 2011, 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 2011, the Company repurchased and cancelled 33,108,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.71 to HKD2.80 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 2011	6,970,000	2.75	2.40	18,019,068.10
July 2011	7,805,000	2.80	2.60	21,295,498.50
September 2011	18,333,000	2.00	1.71	34,426,424.90
	33,108,000			73,740,991.50

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 set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICE

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

During the year ended 31 December 2011, the Company was in compliance with code provisions set out in the CG Code except for the deviations from code provision A.2.1 which is explained below.

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

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 December 2011.

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 2011 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 (the "Audit Committee") on 9 April 2010 with written terms of reference in compliance with the CG Code, and currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei, Mr. Bai Xiaoshu and Mr. Deng Xinping. The Audit Committee is chaired by Mr. Ong Chor Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2011 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

Hong Kong, 13 March 2012

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