O-Net Communications (Group) Limited
昂納光通信（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 877)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010. 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	
		2010	2009
	Note	***HKD'000***	*HKD'000*
Revenue	*4*	**660,577**	338,385
Cost of sales		**(322,761)**	(185,137)
Gross profit		**337,816**	153,248
Other gains – net	*4*	**1,125**	2,065
Selling and marketing costs	*5*	**(33,035)**	(17,436)
Research and development expenses	*5*	**(31,828)**	(16,875)
Administrative expenses	*5*	**(67,305)**	(31,445)
Operating profit		**206,773**	89,557
Finance income	*6*	**4,648**	44
Finance costs	*6*	**(7,692)**	(1,094)
Finance costs – net	*6*	**(3,044)**	(1,050)
Profit before income tax		**203,729**	88,507
Income tax expenses	*7*	**(22,120)**	(9,347)
Profit for the year		**181,609**	79,160

	Note	Year ended 31 December 2010 HKD'000	2009 HKD'000
Profit attributable to:			
Equity holders of the Company		**181,609**	79,160
Earnings per share for profit attributable to equity holders of the Company (HKD per share)			
– Basic	9	**0.25**	0.14
– Diluted	9	**0.25**	0.14

CONSOLIDATED BALANCE SHEET

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

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

	Note	As at 31 December 2010 HKD'000	2009 HKD'000
LIABILITIES			
Current liabilities			
Trade and other payables	*11*	**143,540**	123,040
Current income tax liabilities		**24,927**	10,897
		168,467	133,937
Total liabilities		**168,467**	133,937
Total equity and liabilities		**1,417,809**	322,318
Net current assets		**1,134,696**	118,408
Total assets less current liabilities		**1,249,342**	188,381

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

O-Net Communications (Group) Limited (the "Company") was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company and was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Following a change of its primary economic environment in response to the change of its business expansion plan in the international market, the functional currency of the Company, together with its immediate wholly owned subsidiary which is also principally engaged in investment holding, was changed to United States Dollars ("USD") with effect from 1 September 2010. The directors of the Company consider USD would be more appropriate to act as the functional currency in reflecting the underlying transactions that are relevant to the Company. This change was applied prospectively. The functional currency of the subsidiary in China is RMB, and the functional currency of subsidiaries outside of China is USD.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("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 and amendments to standards are mandatory and relevant to the Group for the financial year beginning 1 January 2010:

- HKFRS 3 (Revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group has accounted for the transactions occurred during the IPO reorganisation in 2010 with reference to HKFRS 3 (Revised)

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

- HKFRS 2 (Amendment), "Share-based payment". The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. There was no substantial impact arising from this amendment.

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

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

- Second improvements to HKFRS (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010. The Group has early adopted the amendment to HKFRS 8 'Operating segment' in 2009.

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group:

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1).

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners'.

- HK(IFRIC) 18, 'Transfers of assets from customers'.

- HKAS 39 (Amendment), 'Eligible hedged items'.

- Annual improvement projects published in 2008 and 2009 to amend the following standards:

  – HKAS 1 (Amendment) 'Presentation of financial statements'

  – HKFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'

  – HKAS 7 (Amendment) 'Cash flow statements'

  – HKAS 18 (Amendment) 'Revenue'

  – HKAS 36 (Amendment) 'Impairment of assets'

  – HKAS 38 (Amendment) 'Intangible assets'

– HKAS 39 (Amendment) 'Financial instruments: Recognition and measurement'

– HKFRS 2 (Amendment) 'Share-based Payment'

– HK(IFRIC) -Int 9 (Amendment) 'Reassessment of embedded derivatives'

– HK(IFRIC)-Int 16 (Amendment) 'Hedges of a net investment in a foreign operation'

(c) ***The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group:***

	Effective for annual periods beginning on or after
HKFRS 9, 'Financial instruments' – Classification and Measurement	1 January 2013
HKAS 24 (Revised) 'Related party disclosures'	1 January 2011
HKAS 32 (Amendment) 'Financial Instruments: Presentation'	1 February 2010
HK(IFRIC) 14 (Amendment) HKAS 19 – 'The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions'	1 January 2011
HK(IFRIC)-Int 19, 'Extinguishing financial liabilities with equity instruments'	1 July 2010
HKFRS 1 (Revised) 'First-time Adoption of International Financial Reporting Standards'	1 July 2010
Amendment to HKAS 12, 'Deferred tax: Recovery of underlying assets'	1 January 2012
Annual improvement project published in 2010 to amend the following standards:	1 January 2011
– 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 directors of the Company are in the process of making an assessment of the impact of these new/revised standards to the financial statements of the Group.

3. SEGMENT REPORTING – GROUP

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

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

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

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

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

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

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

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

4. REVENUE AND OTHER GAINS – NET

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

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

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:

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

6. FINANCE COSTS – NET

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

7. INCOME TAX EXPENSES

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

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

(b) Hong Kong profits tax

The applicable tax rate for Hong Kong profits is 16.5%. No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the year ended 31 December 2010.

(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.

After promulgation of the New PRC EIT Law, the "5-Year Tax Concession" enjoyed by O-Net Shenzhen could be continued to be applied. As the first profit making year of O-Net Shenzhen after offsetting of cumulative carry-forward losses is 2006, the enacted tax rate applicable to O-Net Shenzhen is 11%(being 50% of the enacted EIT rate 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 would be entitled to a concessionary EIT tax rate of 15% for a period of 3 years from 2008 to 2010. Given the fact that the applicable EIT tax rate under the 5-Year Tax Concession is more preferential and beneficial to O-Net Shenzhen, the enacted tax rate applicable to O-Net Shenzhen for 2010 was determined based on the 5-Year Tax Concession, as described in the preceding paragraph.

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

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

8. DIVIDENDS

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

9. 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.

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

The weighted average number of ordinary shares in issue during 2010 used in the basic earnings per share calculation is determined on the assumption that the 579,805,000 shares issued upon the capitalization issue and 10,000 shares issued under the reorganization(i) had been in issue since the beginning of the periods presented (1 January 2009) (2009: same).

(i): On 22 February 2010, the Company issued 9,999 shares of HKD0.01 each to O-Net Communications Limited ("O-Net Cayman") and all the shares were credited as fully paid up by the Company in consideration of the transfer by O-Net Cayman of all its shareholding interests in O-Net BVI to the Company. After the transfer, O-Net BVI became a wholly-owned subsidiary of the Company and the Company became the holding company of the Group.

(b) Diluted

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

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

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

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

	2010 *HKD'000*	2009 *HKD'000*
RMB	**131,941**	89,030
USD	**129,404**	75,883
HKD	**1,431**	1,393
Japanese Yen ("JPY")	**8,150**	3,202
	270,926	169,508

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

Trade receivables

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

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

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

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

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

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

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

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

Bills receivables

	2010	2009
	HKD'000	*HKD'000*
Within 30 days	**10,548**	10,552
31 to 90 days	**8,656**	11,468
91 to 180 days	**20,698**	13,187
	39,902	35,207

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

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

11. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has focused on the research, development, manufacture and sale of passive optical products which included sub-components, components, modules and sub-systems mainly used in broadband and optical network systems. Based on our core proprietary technologies and vertically integrated business model, the Group design, manufacture and market our innovative optical products to the leading telecommunications system vendors. During the year of 2010, the Group performed brilliantly and achieved encouraging results.

The successful listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") on 29 April 2010 (the "Listing Date") and the share placement on 15 November 2010 (the "Placement") have further improved the Company's financial position and overall competitiveness. The net proceeds from the initial public offering (the "IPO") amounted to approximately HKD512.8 million and the net proceeds from the Placement amounted to approximately HKD326.1 million. With the support of investors, as well as the market's recognition of its competitive advantages in terms of the Group's innovation, strong research and development capabilities and financial capacity to invest in advanced technology relating to development and production of optical products, the Group is confident to maintain excellent performance and provide fruitful returns to investors in the future.

BUSINESS REVIEW

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

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

The Company has continued its success in customer development and new product launches. During the year, the Company has successfully completed qualifications with two new customers in China and further enhanced business relationships with additional international customers. The Company has also started shipment of a few new products targeting at 40G next-generation networking technology areas. In the meantime, the Company has stepped up its effort in the next generation research and development including new projects and related equipment and staffing.

FINANCIAL REVIEW

Revenue

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

Gross Profit and Gross Profit Margin

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

Other Gains

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

Selling and Marketing Costs

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

Sales commissions for the year ended 31 December 2010 were HKD19.6 million, an increase of HKD10.6 million, or 117.8%, from HKD9.0 million for the year ended 31 December 2009. The increase was primarily attributable to the fact that our overseas revenues for the year ended 31 December 2010 increased by HKD175.2 million, or 101.5% for the year ended 31 December 2009. We generally do not incur distributor commission for sales in China, the effective commission rate, which is the result of total commissions paid by the company divided by total overseas revenues, was 5.2% for the year ended 31 December 2009 and 5.6% for the year ended 31 December 2010. The increase in effective commission rate is due to we pay relatively higher commission on the new products which started volume shipment in 2010.

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

Research and Development Expenses

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

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

Administrative Expenses

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

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

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

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

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

Sundries expenses for the year ended 31 December 2010 were HKD5.4 million, an increase of HKD4.5 million, or 500.0%, from HK0.9 million for the year ended 31 December 2009. The increase was primarily attributable to the additional professional fees and management expenses as a public company listed on SEHK.

Finance Costs

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

Profit before Tax and Profit before Tax Margin

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

Income Tax Expenses

Current income tax expenses of the Company consist of the Hong Kong profits tax and PRC Enterprise Income Tax ("PRC EIT").

The applicable tax rate for Hong Kong profits is 16.5%. No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the year ended 31 December 2010.

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

Tax expenses for the year ended 31 December 2010 were HKD22.1 million, an increase of HKD12.8 million, or 137.6% from a tax expense of HKD9.3 million for the year ended 31 December 2009. The increase in tax expenses was primarily due to an increase of net profits before tax in 2010 and an increase of the enacted tax rate of O-Net Shenzhen from 10% in 2009 to 11% in 2010.

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

Profit attributable to equity holders increased by HKD102.4 million from HKD79.2 million for the year ended 31 December 2009 to HKD181.6 million for the year ended 31 December 2010, representing 129.3% growth. Profit attributable to equity holders as a percentage of total revenues, namely net profit margin, increased from 23.4% for the year ended 31 December 2009 to 27.5% for the year ended 31 December 2010. The increase in profit attributable to equity holders and net profit margin for the year ended 31 December 2010 was primarily due to an increase in gross profit margin of 51.1% as compared to 45.3% of the in 2009.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The Group believes that providing non-GAAP financial measures are helpful for investors comparing our financial performance with most of the comparable companies listed on NASDAQ in the United States which also providing non-GAAP financial measures. Generally, these non-GAAP financial measures are a numerical measure of a Group's performance and financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with HKFRS issued by the 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.

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

Non-GAAP Profit Analysis

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

RESEARCH AND DEVELOPMENT

The Group continuously expands the size of its R&D team to enhance its R&D capabilities in respect of launching new products. During the year under review, the Group's major R&D projects undertaken and key products launched included wavelength lockers, Differential phase-shift keying ("DPSK"), Differential quaternary phase-shift keying ("DQPSK"), Interleavers, tunable dispersion compensator ("TDC") and Optical Channel Monitors ("OCM").

COMPREHENSIVE DEVELOPMENT OF NEW PRODUCTS

The Group is proactively engaged in the R&D of new products, and it has successfully increased the number of suitable R&D and quality control experts in the industry in order to keep abreast of the latest information and technology in the world for maintaining its leading position in the industry. The Group has increased investment in technology which is mainly for accelerating the development of new products, standardizing the technology basic administration, enhancing the improvement of technology and optimizing the structure of existing products. The Group actively expanded the product structure, enriched product categories and gradually developed new products, such as TDC and OCM.

FUTURE PROSPECTS

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

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

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

Group's Liquidity, Financial Resources and Capital Structure

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

Pledge on Group Assets

Apart from HKD27.0 million bank deposits pledged as performance guarantee for contractors and suppliers for the construction of the new facilities in Shenzhen, as at 31 December 2010, the Group had not pledged any of its assets to its banks to secure banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

During the year ended 31 December 2010, the Group was committed to the expansion of existing facilities and building of new facilities to enhance its production capacity. As at 31 December 2010, the Group has contractual capital commitments of approximately HKD182.8 million, including contractor contract of approximately HKD179.8 million for our new facilities in Shenzhen which in line with the use of proceeds from the IPO that set out in the Prospectus. As at 31 December 2010, the directors of the Company had also authorized a capital expenditure of approximately HKD102.2 million for the construction of new facilities and expansion of production lines that have not been contracted for. As of 31 December 2010, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

Capital Expenditure

During the year ended 31 December 2010, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plants and machinery, office equipment and construction in progress of approximately HKD53.6 million (31 December 2009: HKD11.3 million).

Exposure to Fluctuations in Exchange Rates and Related Hedge

The costs and expenses of the Group are predominantly in RMB, whereas the Group's revenues are mainly in US dollars and RMB. As such the Group face foreign exchange and conversion risks primarily through sales that are denominated in currencies other than RMB. Fluctuation in the exchange rate between RMB and the US dollar may adversely affect our business, financial condition and results of operations.

The Group currently do not have a foreign currency hedging policy. However, management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Save for the net proceeds from IPO, the Group will also monitor and maintain a US dollar cash balance in order to minimize the need for unnecessary foreign exchange conversion which may result in exchange loss.

The reporting currency of the Group is presented in Hong Kong Dollars, as the directors consider that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the shareholders. The Group's cash and bank deposits are mostly denominated in RMB. The Company will pay dividends in Hong Kong Dollars if dividends are declared.

Employee Benefit

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

The Group have provided to the employees with medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

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

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contribution to the success of the Group. During the year ended 31 December 2010, options in aggregate of 30,648,000 shares were granted to 5 Directors and 315 employees of the Group. The Directors believe that the compensation package offered by the Group to staff members are competitive in comparison with market standards and practices.

FINAL DIVIDEND

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

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

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

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

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

(i) On 13 January 2011, the Company granted 16,868,000 share options to certain employees and directors under the Post-IPO Share Option Scheme. The exercise price was determined by the Directors at the higher of (a) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of HKD0.01 per share. The exercise price so determined was HKD5.374 per share option. Out of the options granted, each one third of these options shall become exercisable on 13 July 2011, 13 July 2012 and 13 July 2013, respectively. In addition, these options shall lapse after 8 April 2020. The fair value of options granted determined using the Trinomial Model was approximately HKD36.0 million.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the grant of share options to the Directors during the year ended 31 December 2010, at no time during the year ended 31 December 2010 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition shares in, or debt securities, including debenture, of the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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 Listing Rules.

During the period from 29 April 2010 to 31 December 2010, the Company was in compliance with code provisions set out in the CG Code except for the deviations from code provision A.2.1 which is explained below.

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

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the period from 29 April 2010 to 31 December 2010.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 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 the Code on Corporate Governance Practices, and currently comprises three independent non-executive Directors, Mr. Ong Chor Wei (Chairman of Audit Committee), Mr. Bai Xiaoshu and Mr. Deng Xinping. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2010 before they were tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Stock Exchange and 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, 15 March 2011

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.