O-NET TECHNOLOGIES (GROUP) LIMITED
昂 納 科 技 （ 集 團 ） 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 877)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

RESULTS

The board (the "Board") of directors (the "Directors") of O-Net Technologies (Group) Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2016 together with the comparative figures. The unaudited interim condensed consolidated financial statements have not been audited or reviewed by the Company's auditor, but have been reviewed by the Company's audit committee (the "Audit Committee").

CONDENSED CONSOLIDATED INCOME STATEMENT

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

		(Unaudited) For the six months ended 30 June	
		2016	2015
	Note(s)	***HKD'000***	*HKD'000*
Revenue	*4*	**746,150**	520,511
Cost of sales		**(508,652)**	(345,108)
Gross profit		**237,498**	175,403
Other gains – net		**6,673**	5,971
Selling and marketing costs		**(31,349)**	(23,224)
Research and development expenses		**(81,412)**	(66,337)
Administrative expenses		**(69,690)**	(63,384)
Operating profit		**61,720**	28,429
Finance (expense) income	*8*	**(8,017)**	2,953
Share of result of an associate		**–**	(2,164)
Share of result of a joint venture		**(837)**	(983)
Profit before income tax	*7*	**52,866**	28,235
Income tax expenses	*9*	**(8,595)**	(2,383)
Profit for the period		**44,271**	25,852
Profit attributable to:			
Equity holders of the Company		**45,011**	25,852
Non-controlling interests		**(740)**	–
		44,271	25,852
Earnings per share for profit attributable to equity holders of the Company *(HKD per share)*			
– Basic	*11*	**0.06**	0.04
– Diluted	*11*	**0.06**	0.04

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note(s)	**As at 30 June 2016 (Unaudited)** ***HKD'000***	As at 31 December 2015 (Audited) *HKD'000*
ASSETS			
Non-current assets			
Land use right		**25,542**	26,067
Property, plant and equipment		**701,870**	698,576
Intangible assets		**39,204**	41,388
Investments accounted for using the equity method		**14,715**	15,553
Deferred income tax assets		**9,588**	10,436
Available-for-sale financial assets		**12,272**	12,272
Derivative financial instruments		**322**	1,322
Other receivables	*5*	**27,358**	27,908
Other non-current assets		**33,422**	25,185
		864,293	858,707
Current assets			
Inventories		**233,257**	227,538
Trade and other receivables	*5*	**609,152**	509,195
Other current assets		**6,929**	2,172
Pledged bank deposits		**35,923**	5,635
Term deposits with initial term of over three months		**44,888**	35,808
Cash and cash equivalents		**259,225**	133,910
		1,189,374	914,258
Total assets		**2,053,667**	1,772,965
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**7,374**	7,319
Share premium		**818,066**	807,830
Treasury shares		**(74,927)**	(74,927)
Other reserves		**26,485**	51,373
Retained earnings		**583,526**	538,516
		1,360,524	1,330,111
Non-controlling interests		**3,603**	4,718
Total equity		**1,364,127**	1,334,829

	Note(s)	**As at 30 June 2016 (Unaudited)**	As at 31 December 2015 (Audited)
		HKD'000	*HKD'000*
LIABILITIES			
Non-current liabilities			
Deferred government grants		**14,852**	15,852
Current liabilities			
Trade and other payables	*6*	**560,625**	340,897
Current income tax liabilities		**12,265**	3,141
Other current liabilities		**–**	3,817
Borrowings		**101,798**	74,429
		674,688	422,284
Total liabilities		**689,540**	438,136
Total equity and liabilities		**2,053,667**	1,772,965

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited) For the six months ended 30 June	
	2016	2015
	HKD'000	*HKD'000*
Profit for the period	**44,271**	25,852
Other comprehensive (expense) income		
Item that may be reclassified to profit or loss		
Currency translation differences	**(33,039)**	14,120
Total comprehensive income for the period	**11,232**	39,972
Attributable to:		
Equity holders of the Company	**12,346**	39,972
Non-controlling interests	**(1,114)**	–
Total comprehensive income for the period	**11,232**	39,272

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

O-Net Technologies (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 interim condensed consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These interim condensed consolidated financial statements were approved for issue on 30 August 2016.

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with HKFRSs.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements, except for the adoption of the standards, amendments and interpretation issued by Hong Kong Institute of Certified Public Accountants mandatory for annual periods beginning 1 January 2016. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's result of operations or financial position.

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

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

4. 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 revenue 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 revenue from sales of goods were made to external customers for the six months ended 30 June 2016 and 2015.

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

	For the six months ended 30 June	
	2016	2015
	HKD'000	*HKD'000*
The PRC	**352,010**	258,617
Europe	**178,719**	148,869
North and South America	**123,475**	33,168
Other Asia countries excluding the PRC	**91,946**	79,857
	746,150	520,511

(b) The total non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2016 and 31 December 2015 are as follows:

	As at	
	30 June 2016	31 December 2015
	HKD'000	*HKD'000*
The PRC	**776,492**	724,706
Hong Kong	**13,941**	15,695
North America	**51,620**	66,368
	842,053	806,769

5. TRADE AND OTHER RECEIVABLES

	As at **30 June 2016** *HKD'000*	As at 31 December 2015 *HKD'000*
Trade receivables *(a)*	**475,870**	396,642
Less: provision for impairment of receivables	**(1,538)**	(1,639)
Trade receivables – net	**474,332**	395,003
Amounts due from related parties *(a)*	**10,489**	7,897
Bills receivable *(b)*	**58,873**	75,711
Prepayments	**27,720**	15,630
Interest receivables	**155**	257
Other receivables *(c)*	**64,941**	42,605
	636,510	537,103
Less: non-current portion:		
other receivables *(c)*	**(27,358)**	(27,908)
Current portion	**609,152**	509,195

(a) The credit period generally granted to customers is from 30 to 120 days. The ageing analysis of trade receivables is as follows:

Trade receivables	As at **30 June 2016** *HKD'000*	As at 31 December 2015 *HKD'000*
Within 30 days	**237,477**	155,626
31 to 60 days	**105,596**	94,918
61 to 90 days	**68,224**	90,386
91 to 180 days	**58,781**	41,432
181 to 365 days	**8,737**	13,649
Over 365 days	**7,544**	4,037
	486,359	400,048

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

Bills receivables	As at	
	30 June	31 December
	2016	2015
	HKD'000	*HKD'000*
Within 30 days	**20,473**	20,546
31 to 90 days	**26,897**	23,007
91 to 180 days	**11,503**	32,158
	58,873	75,711

(c) **Other receivables**

Included in the other receivables is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD27,358,000 (2015: HKD27,908,000), pursuant to an agreement signed between O-Net Shenzhen, a subsidiary of the Company, and IPI in 2014. Under the agreement, O-Net Shenzhen will ensure stable supply of goods by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD27,358,000) to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum.

6. TRADE AND OTHER PAYABLES

	As at	
	30 June	31 December
	2016	2015
	HKD'000	*HKD'000*
Trade payables *(a)*	**220,801**	182,594
Bills payable *(b)*	**263,897**	95,488
Accrued expenses	**9,692**	13,977
Payroll payables	**31,589**	27,216
Other payables	**12,700**	7,267
Amounts due to related parties	**9,143**	1,052
Advance from customers	**12,803**	3,042
Other taxes payable	**–**	10,261
	560,625	340,897

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

Trade payables	As at	
	30 June	31 December
	2016	2015
	HKD'000	*HKD'000*
Within 30 days	**128,849**	95,664
31 to 60 days	**38,163**	52,799
61 to 180 days	**42,792**	27,388
181 to 365 days	**8,910**	2,311
Over 365 days	**2,087**	4,432
	220,801	182,594

(b) Bills payables are with maturity dates between 181 and 365 days. The ageing analysis of bills payables is as follows:

Bills payables	As at	
	30 June	31 December
	2016	2015
	HKD'000	*HKD'000*
Within 30 days	**95,411**	–
31 to 180 days	**168,486**	–
181 to 365 days	**–**	95,488
	263,897	95,488

7. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after crediting and charging the following:

	For the six months ended 30 June	
	2016	2015
	HKD'000	*HKD'000*
Staff costs – excluding share options/share awards granted to directors and employees	**167,412**	149,353
Share options/share awards granted to directors and employees expenses	**7,776**	4,303
Raw materials consumed	**332,309**	239,031
Changes in inventories of finished goods and work in progress	**10,631**	9,623
Depreciation	**26,166**	26,002
Amortisation	**2,105**	2,058
(Reversal of)/Provision for impairment provision for doubtful receivables	**(101)**	623
Provision for/(Reversal of) write-down of inventories	**4,221**	(1,142)

8. FINANCE INCOME

	For the six months ended 30 June	
	2016	2015
	HKD'000	*HKD'000*
Finance expense		
– Bank borrowings and other bank charge	**(9,751)**	–
– Net exchange loss	**(772)**	(1,194)
Finance income		
– Interest income, net	**2,506**	4,147
Finance (expense) income	**(8,017)**	2,953

9. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2016	2015
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax *(b)*	**–**	–
– PRC enterprise income tax *(c)*	**9,719**	3,953
Total current income tax	**9,719**	3,953
Deferred income tax	**(1,124)**	(1,570)
Income tax expenses	**8,595**	2,383

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

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

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

In addition, O-Net 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%.

10. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2016 (30 June 2015: Nil).

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share 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.

	For the six months ended 30 June	
	2016	2015
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**45,011**	25,852
Weighted average number of ordinary shares in issue *(thousands shares)*	**707,890**	702,830
Basic earnings per share *(HKD per share)*	**0.06**	0.04

(b) Diluted

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

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

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

	For the six months ended 30 June	
	2016	2015
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**45,011**	25,852
Weighted average number of ordinary shares in issue *(thousands shares)*	**707,890**	702,830
Adjustments for exercise of share options *(thousands shares)*	**10,782**	1,331
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)*	**718,672**	704,161
Diluted earnings per share *(HKD per share)*	**0.06**	0.04

12. SUBSEQUENT EVENT

The Group did not have any significant subsequent event after the period ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been traditionally a supplier of primarily passive optical networking products to telecommunications market worldwide. In the past few years, however, it has directed considerable resources into developing core technology platforms from component level to chip level upstream as well as from module level to sub-system level downstream in order to re-position itself as a high-technology leader capable of providing advanced products and solutions, such as high-speed optical transceivers for data centers, innovative broadband and wireless access products as well as laser chips for pump lasers and Light Detection And Ranging ("LiDAR"), instead of merely supplying passive optical networking products. In addition, the Group has rolled out a "Diversify for Growth" strategy and invested heavily in industrial automation. It launched its first machine vision system and fiber sensor in the second half of 2015 and expected to launch a series of cutting-edge machine vision and sensing products targeting the industry 4.0 market in nearly future.

The Group is now focusing on the following key business segments: 1) optical networking market, which consists of a) telecom applications, the Group's traditional core business; and b) data center market, where the Group's effort mainly focuses on development of high-speed transceivers and associated components; 2) automation and sensing market, in which the Group has invested resources on Industry 4.0 products and LiDAR products for the emerging Advanced Driver Assistance Systems ("ADAS") applications; and 3) other businesses, where the Group has been utilizing its optical coating capabilities to supply special products for various industries such as smartphone. To keep enhancing its leadership in the global technology industry, the Group will continue to look for acquisition opportunities in high technologies so as to expand and create powerful synergies with the Group's core and new businesses in terms of products, technologies and vertical integration so as to accelerate the growth in revenue and profit.

INDUSTRY AND BUSINESS REVIEW

Even the global economy recovered moderately, unforeseeable circumstances will continue to overshadow its growth. Nevertheless, the Group managed to accelerate the business growth and delivered outstanding performance through business transformation, diversification strategy and R&D capabilities.

Optical Networking Business

The global optical components market continued on the uptrend and recorded revenue of USD2,189 million in the first quarter of 2016, principally driven by (i) strong growth in 100GbE and 200GbE coherent transmission in the telecommunication market; (ii) strong demand for web-scale data center in North America and Europe; and (iii) continuous extension of both mobile and optical access networks as well as build-out core networks for supporting upgraded mobile and optical access networks in China. While the global optical components market grew by 16.1% in the first quarter of 2016 as compared with the same period of last year, the Group's revenue of optical networking business for the reporting period had a brilliant growth of 49.8% against the same period of last year and reached HKD673.5 million at the end of the first half of 2016 compared to HKD449.5 million in the first half of 2015.

The optical components market has three segments, telecommunications, data-communications and access. Although the traditional telecommunications segment remains the largest and making up 49.7% of the total optical components market, it has not been growing as fast as the data-communications segment which represented 32.4% of the total optical components market. The latter has seen accelerating growth in demand for build-out web-scale data centers and rolled out 100GbE intra-data center infrastructure in 2016. Spotting promising potential in the data-communications market, the Group started to develop active optical networking products in 2012 and launched its first active optical networking product for data-communications in the second half of 2015. During the first half of 2016, with a leading overseas internet content provider having a significant demand for active optical networking product for data-communications, the data-communications segment brought HKD59.9 million in revenue and became one of the growth drivers of the Group's optical networking business.

Automation and Sensing Business

To cater the demand for automation of the developing manufacturing industry and the smart factories born of the "Made in China 2025" goal, the Group has continued to invest resources in enhancing the product categories of machine vision and sensing products. The products already launched included machine vision system and fiber sensor, which has become the key growth driver of this business segment, contributing revenue of HKD7.1 million to the segmental total in the first half of 2016. The automation and sensing business of the Group is experiencing sequential growth and commanding a higher gross profit margin. During the first half of 2016, the segment boasted a strong growth rate at 38.7% and recorded HKD26.8 million in revenue, with gross profit margin of 40.4%.

Other Businesses

Capitalizing on the Group's technological platforms, the Group also derives other revenue from such as providing coating services to smartphone manufacturers and supplying optical components to fiber lasers market. In the first half of 2016, these businesses, with a 52.0% gross profit margin, contributed revenue of HKD45.8 million to the Group.

FINANCIAL REVIEW

Revenue

For the first half of 2016, the Group has reported revenue of HKD746.2 million, representing an increase of HKD225.6 million, or 43.3%, compared to that of HKD520.5 million in the first half of 2015. The increase in revenue in the first half of 2016 was primarily attributable to the growth in the revenue of the optical networking business for the telecommunications and data-communications markets, and the automation and sensing business.

Optical Networking Business

The optical networking business recorded a revenue of HKD673.5 million in the first half of 2016, representing an increase of 49.8% as compared to HKD449.5 million in the first half of 2015. The increase in revenue was primarily attributable to (i) the demand of the passive optical networking products in the telecommunications market remaining at a high level; (ii) gaining further market share and new customers in both overseas and domestic markets; and (iii) the new revenue sources generated by sales of active optical networking products for data-communications in overseas market.

The revenue of the optical networking business from the overseas market increased by 58.5% to HKD393.4 million in the first half of 2016, representing 58.4% of its total optical networking revenue, which was attributable to (i) the demand of the passive optical networking products in the telecommunications market remaining at a high level due to the upgrading of 100GbE long haul networks; (ii) gaining further market share and new customers in overseas markets, particularly in United Stated of America ("USA"); and (iii) sales of active optical networking products for data-communications in USA.

The revenue of the optical networking business from the domestic market surged by 39.2% to HKD280.1 million in the first half of 2016, represented 41.6% of its total optical networking revenue. The surge was attributable to the combined effects of (i) gaining further market share domestically; and (ii) the demand of the passive optical networking products for telecommunications market remaining at a high level as a results of continuing in extension of mobile and fixed access networks as well as the metro and long haul networks require an upgrade to support the mobile and fixed access networks in China.

Automation and Sensing Business

Revenue from the automation and sensing business of HKD26.8 million was recorded in the first half of 2016, representing an increase of 38.7% as compared to that of HKD19.3 million in the first half of 2015. The increase in revenue in the first half of 2016 was primarily attributable to (i) the increase in demand of both heating coils and cartomizers as the Group had established a healthy supply relationships with several major electronic cigarette makers in China; and (ii) the Group entered into the smart manufacturing industry by the introduction of machine vision system and fiber sensor.

Other Businesses

The Group's other businesses included (i) the industrial laser business; and (ii) the coating services business.

Revenue from the industrial laser business of HKD32.7 million was recorded in the first half of 2016, representing an increase of 12.0% as compared to that of HKD29.3 million in the first half of 2015. The increase in revenue of the industrial laser business was mainly contributed by the increase in demand of optical components by the fiber laser sector.

Revenue from the coating services business of HKD13.1 million was recorded in the first half of 2016, contributed by the orders from the smartphone manufacturers in China. The total represented a decrease by HKD9.3 million as compared to that of HKD22.4 million in the first half of 2015.

Gross Profit and Gross Profit Margin

Gross profit in the first half of 2016 was HKD237.5 million, representing an increase of HKD62.1 million, or 35.4%, from the gross profit of HKD175.4 million in the first half of 2015. The increase of gross profit was primarily due to the significant overall increase in revenue of the Group particularly from the revenue of the optical networking business.

Gross profit as a percentage of total revenue, or gross profit margin, decreased to 31.8% in the first half of 2016 as compared with 33.7% for the first half of 2015.

Other Gains

Other gains in the first half of 2016 increased by HKD0.7 million to HKD6.7 million, from HKD6.0 million in the first half of 2015, which was primarily due to the net effect of (i) the increase in government grants by HKD4.4 million, from HKD2.8 million in the first half of 2015 to HKD7.2 million in the first half of 2016; (ii) a decrease in tax credit of HKD2.6 million, which was recorded in the first half of 2015; and (iii) a fair value loss of derivative financial instruments related to call option embedded in investment in a joint venture of HKD1.0 million was recognized.

Selling and Marketing Costs

Selling and marketing costs of HKD31.3 million in the first half of 2016 represented an increase of HKD8.1 million, or 35.0%, compared to HKD23.2 million in the first half of 2015. The increase in selling and marketing costs in the first half of 2016 was primarily attributable to (i) rising salary costs and commissions; (ii) higher freight charges; and (iii) the increase in share options/share awards expenses. However, selling and marketing costs as a percentage of revenue decreased to 4.2% in the first half of 2016 as compared to 4.5% in the first half of 2015. The decrease was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.

Salary costs and commissions in the first half of 2016 were HKD18.8 million, an increase of HKD5.1 million, or 37.2% compared with HKD13.7 million in the first half of 2015. This increase was primarily attributable to the combined effects of (i) bolstering our efforts in hiring additional staffs for the sales team to seek new business opportunities in the automation and sensing business; (ii) an increment in salaries; and (iii) an increase in commission due to the surge of sale in the first half of 2016.

Freight charges in the first half of 2016 were HKD4.6 million, an increase of HKD1.4 million, or 43.8% compared with HKD3.2 million in the first half of 2015. This increase rose in step with the rising sales revenue in the first half of 2016.

Share options/share awards expenses the first half of 2016 were HKD1.3 million, which represents an increase of HKD1.0 million compared with the first half of 2015. The increase was primarily attributable to amortization of share awards expenses for the newly granted share awards in the second half of 2015.

Research and Development Expenses

Research and development ("R&D") expenses in the first half of 2016 were HKD81.4 million, 22.7% higher compared to HKD66.3 million in the first half of 2015. The rise in R&D expenses was mainly due to the combined effect of the higher salary cost and the increase in share options/share awards expenses. However, R&D expenses as a percentage of revenue decreased to 10.9% in the first half of 2016 as compared to 12.7% in first half of 2015. The decrease in R&D expenses as a percentage of revenue were mainly due to the increase in revenue outweighing the increase in overall R&D expenses.

For the first half of 2016, salaries totaled HKD42.4 million, an increase of HKD13.4 million, or 46.2% as compared to HKD29.0 million in the first half of 2015. The increase was primarily attributable to the combined effects of (i) the increase in hiring of R&D engineers for both the optical networking business and automation and sensing business; (ii) higher salaries; and (iii) all salary of R&D engineers of a subsidiary was included in the Group's R&D expense in the first half of 2016 as an associate being deemed as a subsidiary in March 2015.

Share options/share awards expenses in the first half of 2016 were HKD2.3 million, which represents an increase of HKD1.3 million compared with the first half of 2015. The increase was primarily attributable to amortization of share awards expenses for the granted share awards in the second half of 2015.

Administrative Expenses

Administrative expenses in the first half of 2016 were HKD69.7 million, up 9.9%, compared to HKD63.4 million in the first half of 2015. The increase in administrative expenses in the first half of 2016 was primarily attributable to the increase in the salary and share options/ share awards expenses. However, administrative expenses as a percentage of revenue decreased to 9.3% in the first half of 2016 as compared to 12.2% in the first half of 2015. The decrease was mainly due to the increase in revenue outweighing the net effects of an increase in administrative expenses.

The increase in salary of HKD2.4 million was primarily attributable to the combined effects of (i) an increment in salaries; and (ii) all administrative expenses of a subsidiary was included in the Group's administrative expense in the first half of 2016 as an associate being deemed as a subsidiary in March 2015.

Share options/share awards expenses in the first half of 2016 were HKD3.5 million, which represents an increase of HKD3.0 million compared with the first half of 2015. The increase was primarily attributable to amortization of share awards expenses for the newly granted share award in the second half of 2015.

Finance Expense/Income

Net finance expenses for the first half of 2016 amounted to HKD8.0 million, a decrease of HKD11.0 million from the net finance income of HKD3.0 million in the first half of 2015. The decrease in net finance income was primarily due to the combined effects of (i) the increase in interest expense by HKD9.8 million for bill payables and short term borrowings during the period; and (ii) the foreign exchange loss by HKD0.8 million, which was driven by the weakening of the RMB in the first half of 2016 as most of the cash held by the Group was in Renminbi ("RMB") rather than in Hong Kong Dollars, the functional currency of the Group.

Share of the Result of an Associate

No share of the result of an associate was recognized in the first half of 2016, which represents a decrease of HKD2.2 million compared with HKD2.2 million in the first half of 2015 due to the associate being deemed as a subsidiary in March 2015.

Share of the Result of a Joint Venture

Share of loss of a joint venture was HKD0.8 million in the first half of 2016, which represents a decrease of HKD0.2 million compared with HKD1.0 million in the first half of 2015. The decrease of the Group's share of loss of a joint venture was primarily attributable to the decrease in operating expenses as a result of a lower level of R&D activities as compared to the same period of last year.

Profit Before Tax and Profit Before Tax Margin

Profit before tax of HKD52.9 million was recorded in the first half of 2016 while HKD28.2 million was recorded in the first half of 2015. The increase in profit before tax in the first half of 2016 was primarily due to the significant increase in revenue of the Group.

Profit before tax as a percentage of total revenue, namely profit before tax margin, increased from 5.4% in the first half of 2015 to 7.1% in the first half of 2016. The increase in profit before tax margin was primarily due to the decrease in respective selling expenses, R&D expenses and administrative expenses as percentages of the Group's revenue.

Income Tax Expenses

Currently, income tax expenses of the Group consist of PRC Enterprise Income Tax ("PRC EIT") and deferred taxation as no provisions for Hong Kong profits tax and overseas income taxes have been provided as the Group had no estimated assessable profits arising outside the PRC.

PRC EIT is based on the assessable income of entities within the Group that are incorporated in the PRC, and adjusted for items which are not assessable or deductible for PRC EIT purposes.

At the end of the reporting period, the Group had sufficient tax losses in Canada that are available in future years to offset its future taxable profits arising in that country. Deferred income tax assets had been recognized in respect of these losses as the directors consider it is probable that tax losses carried forward can be utilized.

Income tax expense in the first half of 2016 amounting to HKD8.6 million represents an increase of HKD6.2 million or 258% from HKD2.4 million in the first half of 2015. The increase was primarily due to the increase in net profit before tax in the first half of 2016.

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

Profit attributable to equity holders of HKD45.0 million was recorded in the first half of 2016, up from HKD25.9 million in the first half of 2015. The increase in profit attributable to equity holders was primarily due to the significant increase in the revenue of the Group.

Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, increased from 5.0% in the first half of 2015 to 6.0% in the first half of 2016. The increase in net profit margin was primarily due to the decrease in the respective selling expenses, R&D expenses and administrative expenses as percentages of the Group's revenue.

NON-GAAP FINANCIAL PERFORMANCE

NON-GAAP PROFIT ANALYSIS

Reconciliation of Non-GAAP Financial Measures

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

	For the period ended 30 June	
	2016	2015
	HKD'000	*HKD'000*
Adjustment to measure non-GAAP gross profit		
Gross Profit	**237,498**	175,403
Adjustment related to cost of sales		
Provision/(Reversal of) for excess and obsolete inventory	**4,221**	(1,142)
Non-GAAP Gross Profit	**241,719**	174,261
Adjustment to measure non-GAAP net profit*		
Net profit*	**45,011**	25,852
Adjustment related to cost of sales		
Provision/(Reversal of) for excess and obsolete inventory	**4,221**	(1,142)
Adjustments to measure to operating expenses		
Share options/share award granted to Directors and employees expenses	**7,776**	4,303
Amortization of intangible assets	**2,105**	2,058
Adjustments to other Gain - net		
Fair value loss on derivative financial instruments	**1,000**	–
Non-GAAP Net Profit*	**60,113**	31,071
Non-GAAP EPS		
– Basic	**0.08**	0.04
– Diluted	**0.08**	0.04
Gross Profit Margin	**31.8%**	33.7%
Non-GAAP Gross Profit Margin	**32.4%**	34.5%
Net Profit* Margin	**6.0%**	5.0%
Non-GAAP Net Profit* Margin	**8.1%**	6.0%

* Profit means Profit attributable to Equity Holders of the Company.

Non-GAAP net profit in the first half of 2016 was HKD60.1 million, or HKD0.08 per share, compared to non-GAAP net profit of HKD31.1 million, or HKD0.04 per share, reported in the first half of 2015. Non-GAAP results for the first half of 2016 exclude HKD4.2 million in provision for excess and obsolete inventory, HKD7.8 million in share options/share awards granted to Directors and employees expenses, HKD2.1 million in amortization of intangible assets, and HKD1.0 million in fair value loss on derivative financial instruments. Non-GAAP results in the first half of 2015 exclude HKD1.1 million in reversal of provision for excess and obsolete inventory, HKD4.3 million in share options granted to Directors and employees and HKD2.1 million in amortization of intangible assets.

FUTURE PROSPECTS

Looking ahead, data center products will be the key growth driver of the Group's core business in the near future as the Group expects to launch a series of high-growth next generation innovative products for the data-communications market. At the same time, the Group's automation and sensing businesses will gradually grow into sizable business segments and boost the Group's profitability in coming years. In addition, the Group is a key supplier of optical components which are not only used for optical networking products, but also laser products such as fiber laser and LiDAR. Growth of the latter will present additional business opportunities to the Group conducive to its development.

Optical Networking Business

The Group is confident that its optical networking business will continue to grow and lead the optical networking industry. The optical components market is projected to expand at a compound annual growth rate of 9% between 2014 and 2020, driven primarily by (i) continued double-digit traffic volume growth commanding investment in network infrastructure, not only long haul and metro networks, but also fixed access and mobile networks; (ii) the increase in demand for web-scale data centers; and (iii) wave of data center upgrade to match the rollout of 100GbE expected in the second half of 2016.

The continuing global demand for data traffic and the Chinese government announcing in 2015 that it will improve China's Internet infrastructure to lower broadband tariffs and improve access speeds which has stimulated growth of the telecommunication market are favourable growth factors for the Group. In addition, data center continues to be a bright spot and most of the global web-scale operators have plans to upgrade their data center from 40GbE to 100GbE. Hence, 100GbE transceiver products for data centers should see healthy growth in the data-communications market.

As the Group has successfully launched 100GbE active products (an Integrated Coherent Receiver ("ICR") for the telecommunications market and 10X10 TOSA & ROSA as well as plans to introduce 100GbE Active Optical Cable ("AOC") to the data-communication market in the second half of 2016, its optical networking business will not only be generating income from passive optical networking products for the telecommunications market, but also from a series of high-growth next-generation active products for the telecommunications and data-communications markets. Currently, 40GbE AOC has been qualified by a leading overseas internet content provider and a data center solution player. Looking ahead, the Group believes its optical networking business will maintain high growth and enhance its position as a prominent player in the global optical networking industry boasting strong global R&D and manufacturing presence and with the help of the introduction of 100GbE active optical networking products for the data-communications market.

Automation and Sensing Business

In the past, manufacturers around the world outsourced production to China to benefit from the lower labor costs. However, as the minimum wage in China has soared by more than 50% in the past five years, the Chinese government clearly sees the need to hasten economic transformation and move from simple, labor-intensive production to an innovation-led and high-technology growth model that links with Industry 4.0. To this end, a new national industry directive – "Made in China 2025" – has recently been introduced to accelerate adoption of digital technologies and advance production approaches of manufacturing industries in the country. This initiative by the Chinese government aims to ensure that it plays a leading role in the digital revolution, helping to sustain and improve the country's global manufacturing competitiveness and economic growth, thereby put China on a par with other industrialized countries, such as the U.S.A. and Germany.

Although China's automaton industry is estimated to worth approximately USD100 billion in 2020, the majority of Chinese enterprises have yet to fully embrace innovation related to past industrial stages. The Group therefore expects investment in automation and digitalization to skyrocket. To capture the huge opportunities to come with this development, the Group tapped into the smart manufacturing industry through providing automation solutions, as well as offering machine vision and sensing products. Since 2013, the Group has been developing machine vision solutions, and the first machine vision system and fiber sensor were launched and started to generate revenue in 2015. In addition, a series of machine vision systems and sensors are set to be launched in coming years. The Group believes its automation and sensing products will penetrate the intelligent, digital and networked manufacturing market and be able to seize opportunities in the Industry 4.0 market and become one of the earliest automation solutions providers in Industry 4.0.

Other Businesses

Going forward, the Group will continue to position itself as a leading high-technology enterprise. Supported by its existing technology platforms together with the technological synergies brought by its overseas subsidiaries, the Group's optical components are now used in new designs in different market segments. During the first half of 2016, the Group introduced new product offerings to the multi-kilowatt fiber laser and LiDAR markets.

ADAS is believed to be the most powerful trend in next generation vehicle evolution and LiDAR is one of the key solutions to making high-resolution images or maps for ADAS. Regulatory requirements plus customers' willingness to pay for safety features and potentially save insurance premium for vehicles will boost global ADAS adoption. O-Net, as one of the key components suppliers of LiDAR, expects strong market demand for ADAS to use LiDAR. The Group is confident that this business will serve as an additional revenue stream that can drive the Group's overall revenue growth in future.

The Group has also experienced increasing demand for its special coating products for consumer electronics industries such as smartphone. The Group is planning to invest in this market segment by pursuing joint venture strategies. The goal is to develop certain products that can utilize the Group's coating strength, while creating new technology platform for future growth.

In conclusion, all businesses of the Group have made sound development through the introduction of high-growth new products. The Group's key strategic initiatives will eventually see it achieve the vision of becoming a high technology leader with a solid technological foundation for innovation. Looking forward, the Group will continue to seek for new opportunities that promise to create substantial value for its innovative products and businesses, as well as enable to maintain fast growth, improve returns and enhance shareholder value.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2016, the Company's issued share capital was approximately HKD7.4 million divided into 737,403,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,364.1 million (31 December 2015: HKD1,334.8 million). The Group had current assets of HKD1,189.4 million and current liabilities of HKD674.7 million and the current ratio was 1.76 times as at 30 June 2016 (31 December 2015: 2.2 times). The Group had bank borrowings of HKD101.8 million and the gearing ratio (calculated as total borrowings over shareholders' equity) was 7.5% as at 30 June 2016 (31 December 2015: 5.6%). The Group's net debt-to-equity ratio (calculated as total borrowing net of cash equivalents over shareholders' equity) was not applicable as at 30 June 2016 and 31 December 2015 since the Group's cash equivalents were larger than bank borrowings as at 30 June 2016 and 31 December 2015.

As of 30 June 2016, the Group had cash and cash equivalents of approximately HKD259.2 million (31 December 2015: HKD133.9 million). The significant increase was due to borrowing raised and increase in trade and other payables. 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.

PLEDGE ON GROUP ASSETS

As at 30 June 2016, the Group has pledged HKD35.9 million bank deposits, of which HKD23.3 million and HKD12.6 million were used as guarantee for bill payables and for securing the bank facilities granted to the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2016, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 30 June 2016, the Group had contractual capital commitments of approximately HKD5.1 million (31 December 2015: HKD14.5 million). As of 30 June 2016, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

CAPITAL EXPENDITURE

For the first half of 2016, 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 HKD46.8 million (30 June 2015: HKD56.6 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

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

EMPLOYEE BENEFIT

As at 30 June 2016, the Group had a total of 3,078 employees (30 June 2015: 2,306). The Group's staff costs (including Directors' fees) amounted to HKD175.2 million (30 June 2015: HKD153.7 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. For the first half of 2016, no option was granted.

The Company adopted a restricted share award scheme ("Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. For the first half of 2016, no restricted shares were purchased by the trustee from the market and no new shares were issued by the Company for the purpose of the Award Scheme.

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2016 (2015: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

The Group did not make any significant investment nor did the Group make any material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2016.

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

As at 30 June 2016, the Group maintained sufficient funds for the capital investment and operations in the coming year.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Other than the share options of the Company held by the Directors under the Post-IPO Share Option Scheme, at no time for the first half of 2016 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rule Governing the Listing of Securities on the SEHK (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

CORPORATE GOVERNANCE PRACTICES

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the six months ended 30 June 2016.

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

During the six months ended 30 June 2016, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviation as explained below:–

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

Save as mentioned above, in the opinion of the Directors, the Company has met the relevant code provisions set out in the CG Code during the six months ended 30 June 2016.

AUDIT COMMITTEE

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and to review the risk management and internal control systems of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2016 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.

By Order of the Board
O-Net Technologies (Group) Limited
Na Qinglin
Co-Chairman and Chief Executive Officer

Hong Kong, 30 August 2016

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