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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2015

RESULTS

The board (the “Board”) of directors (the “Directors”) of O-Net Communications (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 2015 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	
		2015	2014
	Note	***HKD'000***	*HKD'000*
Revenue	*4*	**520,511**	400,172
Cost of sales		**(345,108)**	(265,547)
Gross profit		**175,403**	134,625
Other gains – net		**5,971**	6,938
Selling and marketing costs		**(23,224)**	(20,131)
Research and development expenses		**(66,337)**	(56,185)
Administrative expenses		**(63,384)**	(54,857)
Operating profit		**28,429**	10,390
Finance income	*8*	**2,953**	3,473
Share of result of an associate		**(2,164)**	(2,944)
Share of result of a joint venture		**(983)**	(1,634)
Profit before income tax	*7*	**28,235**	9,285
Income tax expenses	*9*	**(2,383)**	(1,517)
Profit for the period		**25,852**	7,768
Profit attributable to:			
Equity holders of the Company		**25,852**	7,768
Earnings per share for profit attributable to equity holders of the Company *(HKD per share)*			
– Basic	*11*	**0.04**	0.01
– Diluted	*11*	**0.04**	0.01

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note	As at 30 June 2015 (Unaudited) HKD'000	As at 31 December 2014 (Audited) HKD'000
ASSETS			
Non-current assets			
Land use right		**28,203**	28,353
Property, plant and equipment		**683,029**	638,291
Intangible assets		**10,205**	60
Investments accounted for using the equity method		**36,524**	40,211
Deferred income tax assets		**10,681**	5,936
Available-for-sale financial assets		**12,271**	11,031
Derivative financial instruments		**2,451**	2,978
Other receivables	*5*	**29,650**	29,640
Other non-current assets		**4,126**	9,874
		817,140	766,374
Current assets			
Inventories		**313,564**	197,226
Trade and other receivables	*5*	**479,464**	404,376
Other current assets		**11,484**	7,498
Pledged bank deposits		**446**	761
Term deposits with initial term of over three months		**50,722**	101,411
Cash and cash equivalents		**62,800**	69,514
		918,480	780,786
Total assets		**1,735,620**	1,547,160
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**7,057**	7,042
Share premium		**808,541**	804,319
Treasury shares		**(73,911)**	(57,859)
Other reserve		**127,950**	111,972
Retained earnings		**481,835**	456,006
Total equity		**1,351,472**	1,321,480

	Note	As at 30 June 2015 (Unaudited) HKD'000	As at 31 December 2014 (Audited) HKD'000
LIABILITIES			
Non-current liabilities			
Bank borrowings		**1,785**	–
Deferred government grants		**8,502**	14,176
		10,287	14,176
Current liabilities			
Trade and other payables	*6*	**329,873**	201,822
Bank borrowings		**26,884**	–
Current income tax liabilities		**17,104**	9,682
		373,861	211,504
Total liabilities		**384,148**	225,680
Total equity and liabilities		**1,735,620**	1,547,160
Net current assets		**544,619**	569,282
Total assets less current liabilities		**1,361,759**	1,335,656

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited) For the six months ended 30 June	
	2015	2014
	HKD'000	*HKD'000*
Profit for the period	**25,852**	7,768
Other comprehensive income		
Item that may be reclassified to profit or loss		
Currency translation differences	**14,120**	(6,179)
Total comprehensive income for the period	**39,972**	1,589
Total comprehensive income attributable to:		
Equity holders of the Company	**39,972**	1,589

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 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.

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

These 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 18 August 2015.

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 2015 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 2014, 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 2014, 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 2015. 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 of its optical networking business, 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 of its optical networking business. 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. In addition, due to the Group started to diversify into new business starting from 2012 and the new business was under developing and still immaterial, the CODM considers that the Group has only one single operating segment of its optical networking business and no segment information was disclosed.

All the reported revenues from sales of goods were made to external customers for the six months ended 30 June 2015 and 2014.

(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	
	2015	2014
	HKD'000	*HKD'000*
The PRC	**258,617**	176,737
Europe	**148,869**	119,689
North and South America	**33,168**	28,080
Other Asia countries excluding the PRC	**79,857**	75,666
	520,511	400,172

(b) The total non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2015 and 31 December 2014 are as follows:

	As at	
	30 June 2015	31 December 2014
	HKD'000	*HKD'000*
The PRC	**697,315**	672,133
Hong Kong	**23,150**	40,408
North America	**41,622**	4,248
	762,087	716,789

5. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2015	31 December 2014
	HKD'000	*HKD'000*
Trade receivables *(a)*	**353,593**	304,199
Less: provision for impairment of receivables	**(1,350)**	(727)
Trade receivables – net	**352,243**	303,472
Amounts due from related parties	**7,795**	5,427
Bills receivables *(b)*	**23,899**	72,093
Prepayments	**30,649**	12,416
Interest receivables	**6,496**	1,822
Other receivables *(c)*	**88,032**	38,786
	509,114	434,016
Less: non-current portion: other receivables *(c)*	**(29,650)**	(29,640)
Current portion	**479,464**	404,376

(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 2015	31 December 2014
	HKD'000	*HKD'000*
Within 30 days	**142,211**	96,777
31 to 60 days	**85,719**	77,969
61 to 90 days	**50,569**	69,885
91 to 180 days	**68,953**	53,002
181 to 365 days	**5,605**	5,393
Over 365 days	**8,331**	6,600
	361,388	309,626

(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 2015	31 December 2014
	HKD'000	*HKD'000*
Within 30 days	**4,638**	11,373
31 to 90 days	**5,091**	24,493
91 to 180 days	**14,170**	36,227
	23,899	72,093

(c) Other receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third party supplier of the Group pursuant to an agreement signed between O-Net Comminations (Shenzhen) Limited ("O-Net Shenzhen"), a subsidiary of the Company, and IPI during the period. Under the agreement dated 5 May 2014, O-Net Shenzhen will ensure stable supply of goods by IPI in coming 5 years. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD29,650,000) 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 2015	31 December 2014
	HKD'000	*HKD'000*
Trade payables *(a)*	**189,595**	152,067
Bills payables *(b)*	**102,064**	1,522
Accrued expenses	**4,738**	8,986
Payroll payable	**27,120**	20,213
Other payables	**2,944**	15,496
Advances from customers	**2,959**	2,463
Other taxes payable	**453**	1,075
	329,873	201,822

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

Trade payables	As at	
	30 June	31 December
	2015	2014
	HKD'000	*HKD'000*
Within 30 days	**70,961**	41,735
31 to 60 days	**59,169**	50,009
61 to 180 days	**51,723**	53,862
181 to 365 days	**3,690**	3,319
Over 365 days	**4,052**	3,142
	189,595	152,067

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

Bills payables	As at	
	30 June	31 December
	2015	2014
	HKD'000	*HKD'000*
Within 30 days	**–**	1,522
31 to 90 days	**619**	–
91 to 365 days	**101,445**	–
	102,064	1,522

7. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2015	2014
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**149,353**	121,091
Share option expenses – for options granted to directors and employees	**4,303**	6,333
Raw materials consumed	**239,031**	172,705
Changes in inventories of finished goods and work in progress	**9,623**	5,237
Depreciation	**26,002**	22,658
Amortisation	**2,058**	372
Provision for impairment provision for doubtful receivables	**623**	–
(Reversal of)/Provision for write-down of inventories	**(1,142)**	3,474

8. FINANCE INCOME

	For the six months ended 30 June	
	2015	2014
	HKD'000	*HKD'000*
Finance income		
– Interest income, net	**4,147**	7,145
– Net exchange loss	**(1,194)**	(3,672)
Finance income	**2,953**	3,473

9. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2015	2014
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax *(b)*	**–**	–
– PRC enterprise income tax *(c)*	**3,953**	1,517
Total current income tax	**3,953**	1,517
Deferred income tax	**(1,570)**	–
Income tax expenses	**2,383**	1,517

(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 2015 (30 June 2014: 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	
	2015	2014
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**25,852**	7,768
Weighted average number of ordinary shares in issue *(thousands shares)*	**702,830**	717,806
Basic earnings per share *(HKD per share)*	**0.04**	0.01

(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	
	2015	2014
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**25,852**	7,768
Weighted average number of ordinary shares in issue *(thousands shares)*	**702,830**	717,806
Adjustments for exercise of share options *(thousands shares)*	**1,331**	(1,579)
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)*	**704,161**	716,227
Diluted earnings per share *(HKD per share)*	**0.04**	0.01

12. SUBSEQUENT EVENT

The Group did not have any significant subsequent event after the period ended 30 June 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Traditionally the Group had primarily been a supplier of passive optical networking products to the global optical telecommunication markets. However, in the past few years, the Group has invested considerable resources in emerging fast growth market segments including cloud data center, automation and sensing, and industrial laser. The Group has successfully re-positioned its strategic focus from a supplier of telecommunication passive optical networking products to a high technology leader with advanced products and solutions, such as high-speed optical transceivers for cloud data centers and innovative products for broadband and wireless access markets. The Group's core technology platforms have also further expanded from component level to core chip level at upstream and sub-system level at downstream.

In addition to optical networking business, the Group has continued the execution of its "Diversify for Growth" strategy. So far, the Group has received positive market responses from automation and sensing business in respect of provision for automation solutions to electronic cigarettes industry. Moreover, in order to seize opportunities in Industry 4.0 markets, a series of cutting-edge products in machine vision and fiber sensing products set to be launched from 2015.

In order to further enhance its leading position in the global technology industry, the Group had successfully acquired ITF Technologies Inc. (formerly as Avensys Inc.) and its subsidiary ("ITF") on 30 January 2015 (the "Acquisition"). ITF is a Canadian company, which is principally engaged in manufacturing and distributing fiber optics components and fiber sensors to the global telecommunications, industrial laser and fiber sensor markets. The Acquisition not only provides the Group an accretive profitability in optical networking business and a new revenue source from the industrial laser business, but also creates powerful synergies with the Group's core and new businesses in terms of products, technologies and vertical integration.

INDUSTRY AND BUSINESS REVIEW

Optical Networking Business

The global optical components market recorded revenue of USD1,873 million for the first quarter of 2015, principally driven by (i) higher data rates in supporting the growth of core network bandwidth demand; (ii) increasing demand for data centers due to introduction of cloud services storage; (iii) increasing growth of passive optical networking equipment in the Asia Pacific region; (iv) development of ultra-high-capacity optical networks; and (v) optical access network build-out particularly in China. Despite a small incremental increase of 3% in the first quarter of 2015 as compared to the same period of last year in the global optical components market, the Group's overall optical networking components revenue (including the revenue of the ITF) for the reporting period achieved a solid growth at a rate of 15.5% over the same period of last year and reached HKD446.7 million compared to HKD386.7 million during the first half of 2014. The gross profit margin of its optical networking business increased from 33.4% for the first half of 2014 to 33.7% for the first half of 2015.

Automation and Sensing Business

As the Chinese government is clearly acknowledging that previous industrial promotion measures, predominantly based on low labor costs, have encountered issues, it has recently encouraged local enterprises to develop technological advancements as well as ways to inject innovation in their businesses and spur competition.

Since the Group had anticipated the potential problem of significantly rising in labor costs, it had allocated resources for technological advancement in automation and digitalisation several years ago and successfully tapped into smart manufacturing industry through the automation solutions business. The products in this category also included machine vision and LiDAR products. In addition, the first fiber sensing product will be launched in the second half of 2015 as well.

For the automation and sensing business, the Group has identified selected industries, such as electronic cigarettes, for providing various automation solutions to meet customers demand. The Group's revenue generated from automation solutions increased from HKD13.4 million for the first half of 2014 to HKD19.3 million for the first half of 2015.

Industrial Applications Business

Industrial laser applications has been developed as one of the key applications since invention of laser, and it can be divided into two categories depending on the power of the laser: material processing and micro-material processing. Irrespective of a mixed global manufacturing growth in 2015, industrial laser industry is expected to record a moderate 5% increase over its 2014 revenue. This modest growth, however, will be led by booming fiber laser sales at an estimated growth rate of 13% in 2015 as compared to 2014, which will be continuously driven by its (i) power efficiency; (ii) cost competitiveness; (iii) ease of maintenance; and (iv) relative durability.

As fiber laser offers flexibility for operation at several wavelengths and allows access to multiple markets-ranging from materials processing and laser marking to sensor applications and laser spectroscopy, as well as medical applications, 3D printing and digital projections, the fiber lasers market therefore is experiencing the fastest growth rate among all other currently available laser technologies.

Having said that, the Group has successfully tapped into the industrial applications business through the Acquisition and become a leading supplier of ultra-reliable fiber-optic components, such as fiber Bragg grating and high-power fused components, in the fiber lasers markets. As a result, the Group had generated a new revenue source of HKD29.3 million from its industrial laser business and recorded a gross profit margin of 55.7% for the first half of 2015.

In addition to the above, this business segment also includes coating services business. By leveraging the Group's optical coating and processing technology platform, an anti-reflective and anti-fingerprint coating machine had been successfully designed and launched for providing coating services starting from the second half of 2014. The Group has generated a new revenue source of HKD25.2 million from its coating services business for the first half of 2015.

FINANCIAL REVIEW

Revenue

For the first half of 2015, the Group reported revenue of HKD520.5 million, representing an increase of HKD120.3 million, or 30.1%, compared to that of HKD400.2 million in the first half of 2014. The increase in revenue in the first half of 2015 was primarily attributable to (i) the organic growth in the revenue of the optical networking business and the automation and sensing business; (ii) the new revenue source generated from the coating services business; and (iii) the new revenue sources of the optical networking business and industrial laser business contributed by the ITF.

Optical Networking Business

Revenue of the optical networking business of HKD446.7 million was recorded in the first half of 2015, representing an increase of 15.5% as compared to that of HKD386.7 million in the first half of 2014. The increase in revenue in the first half of 2015 was primarily attributable to (i) the demand for the optical networking products remaining at a high level; (ii) gained further market share in both overseas and domestic markets; and (iii) the new revenue sources contributed by the ITF.

The revenue of the optical networking business from the overseas market increased by 11.1% to HKD248.2 million in the first half of 2015, representing 55.6% of its total optical networking revenue, which was attributable to the combined effect of (i) gained further market share in overseas markets; and (ii) the revenue of HKD9.4 million of the ITF had been consolidated into the Group.

The revenue of optical networking business from the domestic market increased by 21.6% to HKD198.5 million in the first half of 2015, representing 44.4% of its total optical networking revenue, which was attributable to the combined effect of (i) gain further market share in the domestic market; (ii) initiative of the Chinese government to accelerate high-speed broadband network construction; and (iii) the revenue of HKD21.4 million of the ITF had been consolidated into the Group.

Automation and Sensing Business

Revenue from the automation solutions business of HKD19.3 million was recorded in the first half of 2015, representing an increase of 44.0% as compared to that of HKD13.4 million in the first half of 2014. The increase in revenue in the first half of 2015 was primarily attributable to the increase in demand of heating coils as the Group had established supply relationships with several major electronic cigarette makers in China.

Industrial Applications Business

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

The Group had generated a new revenue source of HKD29.3 million from industrial laser business, which was solely contributed by the ITF. Sales of the industrial laser products were mainly contributed by demand of fiber lasers products for material processing applications primarily from industrial countries, especially China.

Revenue from the coating services business was mainly contributed by the orders from the OEM smartphone manufacturers and touch devices cover glass manufacturers in China. The Group had generated a new revenue source of HKD25.2 million from the coating services business as it had successfully designed and launched a coating machine with a new coating process to meet customer demands starting from the fourth quarter of 2014.

Gross Profit and Gross Profit Margin

Gross profit in the first half of 2015 was HKD175.4 million, representing an increase of HKD40.8 million, or 30.3%, from the gross profit of HKD134.6 million in the first half of 2014. The increase of gross profit was primarily due to the increase in revenue from the operation of the Group (excluding the revenue of the ITF) and the revenue contributed by the ITF.

Gross profit as a percentage of total revenue, or gross profit margin, slightly increased to 33.7% in the first half of 2015 as compared with 33.6% for the first half of 2014.

Other Gains

Other gains in the first half of 2015 decreased by HKD1.0 million to HKD6.0 million, from HKD7.0 million in the first half of 2014, which was primarily due to the net effect of (i) the decrease in government grants by HKD3.9 million, from HKD6.7 million in the first half of 2014 to HKD2.8 million in the first half of 2015; and (ii) a tax credit of HKD2.6 million was recorded in the first half of 2015.

Selling and Marketing Costs

Selling and marketing costs of HKD23.2 million in the first half of 2015 represents an increase of HKD3.1 million, or 15.4%, compared to HKD20.1 million in the first half of 2014. The increase in selling and marketing costs in the first half of 2015 was primarily attributable to (i) the increase of the salary costs and travelling expenses (excluding those respective expenses of the ITF); and (ii) overall selling and marketing expenses incurred by the ITF. However, selling and marketing costs as a percentage of revenue decreased to 4.5% in the first half of 2015 as compared to 5.0% in the first half of 2014. The decrease was mainly attributable to the increase in revenue outweighing the increase in the overall selling and marketing costs.

Apart from salary of HKD0.8 million incurred by the ITF, salary in the first half of 2015 was HKD6.7 million which represents an increase of HKD1.8 million, or 36.7% compared with HKD4.9 million in the first half of 2014. This increase was primarily attributable to the combined effect of (i) bolstering our efforts in hiring additional staff for the sales team to seek for new business opportunities in automation and sensing business; and (ii) an increment in labor wages.

Apart from travelling expenses of HKD0.2 million incurred by the ITF, travelling expenses was HKD1.3 million, which represents an increase of HKD0.3 million compared with the first half of 2014. The increase in travelling expenses was primarily attributable to more frequent business travellings to overseas subsidiaries and associates conducted by the management team during the period under review.

Research and Development Expenses

Research and development ("R&D") expenses in the first half of 2015 were HKD66.3 million, which was 18.0% higher compared to HKD56.2 million in the first half of 2014. The rise in R&D expenses was mainly due to (i) the increase in salary cost in the R&D projects partially offset by the decrease in the material consumed (excluding those respective expenses of the ITF); and (ii) the overall R&D expenses incurred by the ITF. However, R&D expenses as a percentage of revenues decreased to 12.7% in the first half of 2015 as compared to 14.0% in first half of 2014. The decrease in R&D expenses as a percentage of revenues were mainly due to the increase in revenue outweighing the increase in the overall R&D expenses.

Apart from salary of HKD4.7 million incurred by the ITF, for the first half of 2015, the salary was HKD29.0 million, an increase of HKD11.2 million, or 63.0% as compared to HKD17.8 million in the first half of 2014. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers for both optical networking business and automation and sensing business; and (ii) an increment in labor wages.

However, apart from the cost of raw material consumed of HKD0.3 million incurred by the ITF, raw material consumed in the R&D projects amounted to HKD13.8 million in the first half of 2015, representing a decrease of HKD4.9 million, or 26.2% from HKD18.7 million in the first half of 2014. The decrease of raw materials for R&D projects was primarily attributable to the capitalization of raw material consumed for products of the optical networking business under developing.

Administrative Expenses

Administrative expenses in the first half of 2015 were HKD63.4 million, which was 15.5% higher, compared to HKD54.9 million in the first half of 2014. The increase in administrative expenses in the first half of 2015 was primarily attributable to (i) the increase in staff salary and staff welfare partially offset by the decrease in the share option costs (excluding those respective expenses of the ITF); and (ii) overall administrative expenses incurred by the ITF. However, administrative expenses as a percentage of revenues decreased to 12.2% in the first half of 2015 as compared to 13.7% in the first half of 2014. The decrease was mainly due to the increase in revenue outweighing the net effect of increase in administrative expenses.

Apart from salary of HKD2.9 million incurred by the ITF, salary in the first half of 2015 was HKD35.1 million, which represents an increase of HKD10.0 million, or 39.8% compared with the HKD25.1 million in the first half of 2014. This increase was primarily attributable to the combined effect of (i) hiring additional staff for the automation and sensing business; and (ii) an increment in labor wages.

The share option cost in the first half of 2015 was HKD0.5 million, a decrease of 75.0% compared with HKD2.0 million in the first half of 2014. The decrease was primarily attributable to most of the share option costs related to the options granted to the administrative staff had already been fully amortized in previous years.

Finance Income

Net finance income for the first half of 2015 amounted to HKD3.0 million, a decrease of HKD0.5 million from HKD3.5 million in the first half of 2014. The decrease in net finance income was primarily due to the net effect of (i) the decrease in interest income by HKD3.0 million as a lower average fixed deposit balance during the period; and (ii) the decrease in foreign exchange loss by HKD2.5 million, which was driven by a higher extent of the strengthening of the RMB in the first half of 2015 as the Group held most of the cash in Renminbi Yuan ("RMB") rather than the functional currency of the Group.

Share of Result of an Associate

Share of result of an associate was HKD2.2 million in the first half of 2015, which represents a decrease of HKD0.8 million compared with HKD3.0 million in the first half of 2014. The decrease of the Group's share of result of an associate was primarily attributable to the decrease in overall expenses as a result of an implementation of personnel changes in order to streamline the Group's operations for long-term growth.

Share of Result of a Joint Venture

Share of result of a joint venture ("JV") was HKD1.0 million in the first half of 2015, which represents a decrease of HKD0.6 million compared with HKD1.6 million in the first half of 2014. The decrease of the Group's share of loss of a JV 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 HKD28.2 million was recorded in the first half of 2015 while HKD9.3 million was recorded in the first half of 2014. The increase in profit before tax in the first half of 2015 was primarily due to an increase in revenue from the operation of the Group (excluding the revenue of the ITF) and the revenue contributed by the ITF.

Profit before tax as a percentage of total revenues, namely profit before tax margin, increased from 2.3% in the first half of 2014 to 5.4% in the first half of 2015. 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 for offsetting against its future taxable profits arising in Canada. 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 utilised.

Income tax expenses in the first half of 2015 amounted to HKD2.4 million represents an increase of HKD0.9 million or 57.1% from the income tax expense of HKD1.5 million in the first half of 2014. The increase in income tax expenses was primarily due to the net effect of (i) the increase in net profit before tax in the first half of 2015; and (ii) recognition of deferred income tax assets of the ITF resulting from loss-making position to become profitable for the reporting period.

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

Profit attributable to equity holders of HKD25.9 million was recorded in the first half of 2015, while HKD7.8 million was recorded in the first half of 2014. The increase in profit attributable to equity holders was primarily due to increase in revenue from the operation of the Group (excluding the revenue of the ITF) and the revenue contributed by the ITF.

Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, increased from 1.9% in the first half of 2014 to 5.0% in the first half of 2015. 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	
	2015	2014
	HKD'000	*HKD'000*
Adjustment to measure non-GAAP gross profit		
Gross Profit	**175,403**	134,625
Adjustment related to cost of sales		
(Reversal of)/Provision for excess and obsolete inventory	**(1,142)**	3,474
Non-GAAP Gross Profit	**174,261**	138,099
Adjustment to measure non-GAAP net profit		
Net profit	**25,852**	7,768
Adjustment related to cost of sales		
(Reversal of)/Provision for excess and obsolete inventory	**(1,142)**	3,474
Adjustments to measure to operating expenses		
Share options granted to Directors, employees and sales distributors	**4,303**	6,333
Amortization of intangible assets	**2,058**	372
Non-GAAP Net Profit	**31,071**	17,947
Non-GAAP EPS		
– Basic	**0.04**	0.03
– Diluted	**0.04**	0.03
Gross Profit Margin	**33.7%**	33.6%
Non-GAAP Gross Profit Margin	**34.5%**	34.5%
Net Profit Margin	**5.0%**	1.9%
Non-GAAP Net Profit Margin	**6.0%**	4.5%

Non-GAAP net profit in the first half of 2015 was HKD31.1 million, or HKD0.04 per share, compared to non-GAAP net profit of HKD17.9 million, or HKD0.03 per share, reported in the first half of 2014. Non-GAAP results for 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 expenses and HKD2.1 million in amortization of intangible assets. Non-GAAP results in the first half of 2014 exclude HKD3.4 million in provision for excess and obsolete inventory, HKD6.3 million in share options granted to Directors and employees expenses and HKD0.4 million in amortization of intangible assets.

FUTURE PROSPECTS

Looking ahead, the products for cloud data center will be a key growth driver for 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 telecommunications and data-communications markets. At the same time, the Group's automation and sensing businesses will gradually grow into a sizable business segment and further increase the Group's profitability. These key strategic initiatives will eventually advance the Group's overall business expansion in the coming years.

Optical Networking Business

The Group is confident that its optical networking business will continue to grow and lead the optical networking industry. The outlook for the optical components market is projected to expand at a compound annual growth rate of 9% for 2014 to 2020, to be primarily driven by (i) continued double-digit traffic volume growth requiring investment in network infrastructure and hence components; (ii) strong demand created by optical network transmission upgrading to 100GbE; and (iii) the increase in demand for data centers due to cloud services storage opportunities.

An advantage for the Group is that the telecommunications market continues to be driven by 100GbE demand while data centers continued to be a bright spot, so that 40GbE products should also achieve good growth in the data-communications market. Moreover, the Chinese government recently announced this year to improve China's internet infrastructure in order to lower broadband tariffs and improve access speeds, which should be a key factor leading the growth of the optical networking business in China. To this end, the Group has successfully launched one 100GbE active product (an Integrated Coherent Receiver) and two 40GbE active products (the Active Optical Cable ("AOC") and QSFP+BIDI) for telecommunications and data-communication markets, respectively. Currently, AOC has been successfully qualified by both an overseas internet content player and a data center solution player.

Concurrently, the Group is also a world-wide leading solutions provider for the most innovative WiFi technologies, such as balloon and drone-type WiFi-access solutions for providing WiFi access to users in remote area. In addition, the Group expects to launch a new active product for the broadband access market in the near future. Looking ahead, the optical networking business income stream will not only be generated from passive optical networking products, but also from a series of high-growth next-generation active products for telecommunications and data-communications applications.

Moreover, driven by the provision of management services for 3SP as well as the acquisition of the ITF, the Group believes that its optical networking business will return to a high-growth track and enhance its position as a prominent player in the global optical networking industry.

Automation and Sensing Business

In the past, manufacturers around the world have outsourced production to China to benefit from the lower labor costs. However, as the minimum wage has since soared more than 50% during the past five years, the Chinese government is clearly acknowledging a need to drive transformation faster in order to move away from simple, labor-intensive production to an innovation-led and high-technology growth model to link with Industry 4.0. To this end, a new national industry directive – "Made in China 2025" has recently been introduced for accelerating adoption of digital technologies and advanced production approaches across national manufacturing industries. This initiative by the Chinese government aims to play a leading role in this digital evolution in order to improve and sustain its global manufacturing competitiveness and economic growth as well as to put China on par with other industrialized countries, such as the U.S.A. and Germany.

Although China's automaton industry is estimated to be worth about USD100 billion, a majority of the Chinese enterprises have not yet fully embraced the innovations related to past industrial stages. The Group foresees that investments in automation and digitalisation will be skyrocketing, but the Group has successfully tapped into the smart manufacturing industry through its automation and sensing business. Therefore, the Group believes that it is in a good position to be one of the earliest providers of Industry 4.0 components and solutions. As the Group had started to develop machine vision solutions since 2013, a series of machine vision solutions together with fiber sensing products are set to be launched from 2015. In addition, the Group together with the newly acquired ITF and 3SP Technologies S.A.S. under management contract also contributed LiDAR products into the Group's portfolio. The Group is confident that its automation and sensing products will penetrate into an intelligent, digital and networked manufacturing market and seize for the opportunities in Industry 4.0 markets, which will eventually improve its overall profitability and expand its scale of business.

Industrial Applications Business

Looking ahead, the Group will continue to position itself as one of the leading high technology enterprises in China. By leveraging the ITF's existing technology platforms, the ITF will continue to develop and launch new solutions for material processing applications. As demand of fiber lasers products for material processing applications is primarily from China, ITF will be able to expand its business by taking advantage of the Group's strong presence in China; moreover, ITF will also be able to generate additional revenue by leveraging the Group's strong sales global and marketing teams. The Group is confident that its industrial applications business will contribute additional revenue stream to the Group's overall revenue in the upcoming years.

In conclusion, by leveraging on its existing technology platforms, the Group will continue to invest in new business opportunities that are innovative and create substantial new value to its business. The Group's entries into the automation and sensing market have proven a success. This achievement as well as a series of high-growth next-generation active and passive optical networking products has well-prepared the Group to embark on another fast growth track, which would improve returns and enhance value to the shareholders.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2015, the Company's issued share capital was approximately HKD7.05 million divided into 705,658,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,321.5 million (31 December 2014: HKD1,347.3 million). The Group had current assets of HKD875.8 million and current liabilities of HKD191.1 million and the current ratio was 2.5 times as at 30 June 2015 (31 December 2014: 3.7 times). The Group had bank borrowings of HKD28.7 million and the gearing ratio (calculated as total borrowings over shareholders' equity) was 0.02 as at 30 June 2015 (31 December 2014: Not applicable since the Group did not have any borrowing). 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 2015 and 31 December 2014 since the Group's cash equivalents were larger than bank borrowings as at 30 June 2015 and the Group did not have any borrowing as of 31 December 2014.

As of 30 June 2015, the Group had cash and cash equivalents of approximately HKD62.8 million (31 December 2014: HKD69.5 million). The significant decrease was due to the repurchase of the shares, investment in trustee of share award scheme and capital expenditure on property, plant and equipment during the period. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

During the period ended 30 June 2015, the Company repurchased and cancelled its own shares at a total consideration of HKD2.79 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 30 June 2015, HKD0.4 million bank deposits were pledged as guarantee for payables due to contractor and suppliers for the construction of the new plants in Shenzhen. The Group has also pledged bank deposits of HKD2.5 million as guarantee for bills payables due to raw material suppliers.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2015, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 30 June 2015, the Group had contractual capital commitments of approximately HKD49.2 million (31 December 2014: HKD47.4 million). As of 30 June 2015, 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 2015, 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 HKD56.6 million (30 June 2014: HKD35.5 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

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

EMPLOYEE BENEFIT

As at 30 June 2015, the Group had a total of 2,306 employees (30 June 2014: 2,198). The Group's staff costs (including Directors' fees) amounted to HKD153.7 million (30 June 2014: HKD127.4 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 2015, no option was granted (31 December 2014: options in aggregate of 1,870,000 were granted to 18 employees of the Group and one independent non-executive Director).

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 2015, 8,919,000 restricted shares were purchased by the trustee from the market 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 2015 (30 June 2014: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

On 30 January 2015, the Group acquired the entire issued share capital of ITF Technologies Inc. (formerly as Avensys Inc.) ("ITF") and the sale loan with a cash consideration of USD5,000,000. ITF is a company incorporated in Canada, which is principally engaged in design, manufacture, distribution, and marketing of high reliability optical components and modules as well as fiber bragg gratings (FBGs) for the telecom market and high power devices and subassemblies for the industrial market.

Save as aforesaid, the Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2015.

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

As at 30 June 2015, the Group maintained sufficient funds for the capital investment and operations in the coming year.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

On 9 July 2015, the Group received an order of the Governor in Council in Canada (the "Order") that the investment by the Group through the acquisition of control in ITF would be injurious to national security. The Company is in the course of discussion with the Canadian Government through our legal counsel in order to understand more about the Order and is considering taking necessary actions to either address the Canadian Government concerns or contest the judgement made in the Order.

Save as aforesaid, 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 2015 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

During the six months ended 30 June 2015, the Company repurchased 1,858,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HKD1.58 to HKD1.70 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share Highest	Purchase price per share Lowest	Aggregate purchase consideration (excluding expenses)
		HKD	*HKD*	*HKD*
January 2015	1,858,000	1.70	1.58	3,049,280
	1,858,000			3,049,280

During the period, the Company, through the trustee of the Award Scheme, purchased from the market 8,919,000 shares for the purpose of the Award Scheme.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the 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 2015.

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 2015.

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 2015, 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 code provisions set out in the CG Code during the six months ended 30 June 2015.

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 internal control system of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2015 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 18 August 2015

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.