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 2013

RESULTS

The Board (the "Board") of Directors (the "Directors") of O-Net Communications (Group) Limited (the "Company") presents the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2013 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	
		2013	2012
	Note	***HKD'000***	*HKD'000*
Revenue		**256,636**	365,659
Cost of sales		**(180,657)**	(221,788)
Gross profit		**75,979**	143,871
Other gains – net		**6,626**	152
Selling and marketing costs		**(13,394)**	(18,270)
Research and development expenses		**(45,349)**	(33,279)
Administrative expenses		**(50,263)**	(46,813)
Operating (loss)/profit		**(26,401)**	45,661
Finance income	*5*	**10,241**	6,588
Finance costs	*5*	**–**	(804)
Finance income – net	*5*	**10,241**	5,784
Share of result of a joint venture		**(620)**	–
(Loss)/profit before income tax	*6*	**(16,780)**	51,445
Income tax expenses	*7*	**(6,035)**	(8,256)
(Loss)/profit for the period		**(22,815)**	43,189
(Loss)/profit attributable to:			
Equity holders of the Company		**(22,815)**	43,189
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company *(HKD per share)*			
– Basic	*9*	**(0.03)**	0.05
– Diluted	*9*	**(0.03)**	0.05

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note	**As at 30 June 2013 (Unaudited) *HKD'000***	As at 31 December 2012 (Audited) *HKD'000*
ASSETS			
Non-current assets			
Land use right		**29,072**	28,885
Property, plant and equipment		**533,687**	447,510
Other non-current assets		**–**	11,462
Intangible assets		**231**	276
Interest in a joint venture		**22,780**	–
Deferred income tax assets		**–**	4,316
		585,770	492,449
Current assets			
Inventories		**168,175**	177,071
Trade and other receivables	*10*	**238,469**	264,054
Other current assets		**5,642**	5,289
Pledged bank deposits		**19,444**	15,589
Term deposits with initial term of over three months		**136,840**	75,230
Cash and cash equivalents		**364,695**	558,937
		933,265	1,096,170
Total assets		**1,519,035**	1,588,619
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital		**7,410**	7,556
Reserves		**1,338,702**	1,381,115
Total equity		**1,346,112**	1,388,671
LIABILITIES			
Current liabilities			
Trade and other payables	*11*	**168,117**	186,498
Current income tax liabilities		**4,806**	13,450
		172,923	199,948
Total liabilities		**172,923**	199,948
Total equity and liabilities		**1,519,035**	1,588,619
Net current assets		**760,342**	896,222
Total assets less current liabilities		**1,346,112**	1,388,671

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited) For the six months ended 30 June	
	2013	2012
	HKD'000	*HKD'000*
(Loss)/profit for the period	**(22,815)**	43,189
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**16,919**	(8,900)
Total comprehensive income for the period	**(5,896)**	34,289
Total comprehensive income attributable to:		
Equity holders of the Company	**(5,896)**	34,289

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 GENERAL INFORMATION

(a) 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, PO 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 27 August 2013.

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.

(b) Group Reorganization and Basis of Consolidation

Prior to incorporation of the Company, the Listing Business was owned by O-Net Communications Limited ("O-Net Cayman"), a company collectively controlled by Mandarin IT Fund I, Mariscal Limited, O-Net Employee Plan Limited ("O-Net Trust"), Mr. Na Qinglin, Mr. Xue Yahong as a group (the "Shareholders Group") and Kaifa Technology (H.K.) Limited ("Kaifa HK"). These shareholders altogether are defined as the "Controlling Shareholders".

In preparation for the IPO, a series of group reorganization (the "Reorganization") was undertaken from 2006 to 2010, pursuant to which the group companies engaged in the Listing Business owned by O-Net Cayman were transferred to the Company and the Company became the holding company of the Group.

Under Hong Kong Financial Reporting Standards ("HKFRS") 3 (Revised) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 'Business combination', the Reorganization relating to the transfer of the Listing Business to the Company has not been considered a business combination because the Company has not involved in any other businesses prior to the Reorganization and do not meet the definition of a business. The directors of the Company consider that it is merely a reorganization of the Listing Business which has not changed the management and operations of the Listing Business. Accordingly, the consolidated financial statements of the Group are presented using the carrying values of the Listing Business controlled by the Company.

2 BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2013 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 2012, 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 2012, 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 2013. 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 revenues derived from each customer. Gross/net profits and costs are managed in aggregate on entity level, not on individual product or customer level. As a result of such a change, the CODM considers that the Group has only one single operating segment and no segment information was disclosed.

All the reported revenues from sales of goods were made to external customers for the six months ended 30 June 2013 and 2012.

(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	
	2013	2012
	HKD'000	*HKD'000*
The PRC	**131,961**	133,526
Europe	**66,102**	104,409
North and South America	**18,649**	25,785
Other Asia countries excluding the PRC	**39,924**	101,939
	256,636	365,659

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2013 and 31 December 2012 are as follows:

	As at	
	30 June	31 December
	2013	2012
	HKD'000	*HKD'000*
The PRC	**560,209**	487,921
Hong Kong	**74**	74
The United States of America (the "USA")	**2,707**	138
	562,990	488,133

5 FINANCE INCOME – NET

	For the six months ended 30 June	
	2013	2012
	HKD'000	*HKD'000*
Finance income		
– Interest income	**4,353**	6,588
– Net exchange gain	**5,888**	–
Finance costs		
– Interest expenses on bank borrowings	**–**	(488)
– Net exchange loss	**–**	(316)
Finance income – net	**10,241**	5,784

6 (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after crediting and charging the following:

	For the six months ended 30 June	
	2013	2012
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**95,190**	94,405
Share option expenses – for options granted to directors and employees	**6,871**	14,492
Raw materials consumed	**123,545**	147,407
Changes in inventories of finished goods and work in progress	**3,472**	14,833
Depreciation	**20,461**	14,272
Amortisation	**376**	429
Provision for/(write back of) impairment provision for doubtful receivables	**1,167**	(328)
Provision for write-down of inventories	**3,159**	–

7 INCOME TAX EXPENSES

	For the six months ended 30 June	
	2013	2012
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax *(b)*	**1,213**	3,152
– PRC corporate income tax *(c)*	**–**	4,435
– Taxation in other overseas jurisdiction *(d)*	**471**	–
Total current income tax	**1,684**	7,587
Deferred income tax	**4,351**	669
Income tax expenses	**6,035**	8,256

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

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

(c) PRC enterprise income tax (the "PRC EIT")

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

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

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

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

(d) Taxation in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

8 DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2013 (30 June 2012: Nil).

9 (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share are calculated by dividing the (loss)/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	
	2013	2012
(Loss)/profit attributable to equity holders of the Company for the six months *(HKD'000)*	**(22,815)**	43,189
Weighted average number of ordinary shares in issue *(thousands)*	**754,327**	795,739
Basic (loss)/earnings per share *(HKD per share)*	**(0.03)**	0.05

(b) Diluted

Diluted (loss)/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 (loss)/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	
	2013	2012
(Loss)/profit attributable to equity holders of the Company for the six months *(HKD'000)*	**(22,815)**	43,189
Weighted average number of ordinary shares in issue *(thousands shares)*	**754,327**	795,739
Adjustments for share options *(thousands shares) (i)*	**–**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)*	**754,327**	795,739
Diluted (loss)/earnings per share *(HKD per share)*	**(0.03)**	0.05

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

10 TRADE AND OTHER RECEIVABLES

	As at 30 June 2013 HKD'000	31 December 2012 HKD'000
Trade receivables *(a)*	**187,147**	215,109
Less: provision for impairment of receivables	**(1,694)**	(509)
Trade receivables – net	**185,453**	214,600
Amounts due from related parties *(a)*	**788**	1,055
Bills receivables *(b)*	**44,721**	38,604
Prepayments	**2,598**	3,686
Interest receivables	**1,623**	2,290
Other receivables	**3,286**	3,819
	238,469	264,054

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

Trade receivables	As at 30 June 2013 HKD'000	31 December 2012 HKD'000
Within 30 days	**84,625**	63,113
31 to 60 days	**38,943**	57,833
61 to 90 days	**27,430**	58,387
91 to 180 days	**30,234**	33,959
181 to 365 days	**4,924**	1,507
Over 365 days	**1,779**	1,365
	187,935	216,164

(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 2013 HKD'000	31 December 2012 HKD'000
Within 30 days	**13,443**	6,703
31 to 90 days	**10,672**	6,774
91 to 180 days	**20,606**	25,127
	44,721	38,604

11 TRADE AND OTHER PAYABLES

	As at	
	30 June	31 December
	2013	2012
	HKD'000	*HKD'000*
Trade payables *(a)*	**84,953**	113,892
Bills payables *(b)*	**12,950**	4,329
Accrued expenses	**12,712**	10,608
Payroll payable	**15,869**	20,717
Other payables	**28,920**	35,356
Advances from customers	**5,351**	533
Other taxes payable	**7,362**	1,063
	168,117	186,498

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

	As at	
	30 June	31 December
	2013	2012
	HKD'000	*HKD'000*
Within 30 days	**39,869**	37,867
31 days to 60 days	**12,722**	30,212
61 days to 180 days	**29,565**	41,167
181 days to 365 days	**2,137**	2,017
Over 365 days	**660**	2,629
	84,953	113,892

(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
	2013	2012
	HKD'000	*HKD'000*
Within 30 days	**1,758**	–
31 to 90 days	**7,226**	–
91 to 180 days	**3,966**	4,329
	12,950	4,329

12 SUBSEQUENT EVENT

Save for the repurchase of shares during the six months ended 30 June 2013, the Company further repurchased and cancelled 11,936,000 ordinary shares at a total consideration of HKD17,064,000 in July 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

O-Net Communications (Group) Limited (the "Company") and its subsidiaries (collectively, the "Group") has focused on the research, development, manufacture and sales of passive optical networking products which included sub-components, components, modules and sub-systems mainly used in broadband and optical networking systems. With the Group's signature strategy - innovation, the Group has started research and development ("R&D") in certain active optical networking products used in the next-generation telecommunication and data-communication systems at its newly established USA R&D center. With the Group's new strategy "Diversify for Growth", the Group identified certain new businesses including automation, fiber laser and touch panel. Based on its core proprietary technologies and vertically integrated business model, the Group aims to become a leading high-tech company.

INDUSTRY REVIEW

Global optical networking product revenue in 2012 contracted by 2.6% to USD6.3 billion as compared to the revenue in 2011 and marking the second annual decline for the industry since 2005 which has been troubled by the weak growth persisted due to conservative capital expenditure resulting from macroeconomic uncertainty.

For the first half of 2013, the global optical networking products revenue continues to be weak as existing network deployments mature, while new network deployments are unlikely to compensate for the large capital expenditure seen in 2011 and 2012. However, there are encouraging signs that the market slowdown has stabilized and the market is gradually working its way upwards from the downturn. Obviously, the global optical networking market is expected to recover gradually throughout 2013, with an expected recovery of the global economy and is now ready to grow to support the increasing data traffic and new cloud-based service opportunities.

BUSINESS REVIEW

With the expectation that the optical networking industry is entering a long-awaited period of recovery, the Group has prepared itself to capture the revival momentum and to seek steady business development. However, numerous factors continue to affect the business of the Group. The sovereign debt problem in Europe, sluggish recovery in the economy of the USA and deceleration of economic growth in the PRC depressed global optical networking capital expenditure and had an adverse impact on the Group's customer orders. While the demand reached its peak during December in the previous years, the business contraction was most evident in December 2012 which diverged from normal seasonal patterns. In addition, the selling prices of optical networking products continue to fall, accelerating the decline in the Group's revenues and gross profits. For the first half of 2013, the Group reported revenue of HKD256.6 million, representing a 29.8% decline, while gross profit was HKD76.0 million, representing a decrease of 47.1%, as compared with the same period of last year.

Meanwhile, because of the significant increase in operating expenses due to the additional R&D expenses for developing new products for next-generation network and new business divisions as well as the increase in administrative expenses brought by the additional depreciation of fixed assets and utilities expenses consumed in the new factory with larger usable space plus one-time transportation costs and low value consumables costs incurred for the relocation, the Group turned profit into loss as compared with the same period of last year.

FINANCIAL REVIEW

Revenue

For the first half of 2013, the Group reported revenue of HKD256.6 million, representing a 29.8% decline over the same period of last year. While the global capital expenditures remain weak due to ongoing global macroeconomic uncertainty, the significant decline of demand from overseas customers adversely affected the Group's revenue.

In the overseas market, the demand has been at a low level since the fourth quarter of 2012 especially lack of the benefit from the extra demand due to Thailand flooding and the completion of the optical networking expansion cycle in certain Asian countries as well as the selling prices of the optical networking products continue to fall. Consequently, revenues from the overseas decreased by 46.3% to HKD124.7 million for the first half of 2013, representing 48.9% of its total revenues.

In the domestic market, even the capital expenditures are continued to grow for supporting the increasing data traffic and new cloud-based services opportunities, the Group adopts a competitive pricing strategy for maintaining its market share in the domestic market, the domestic revenue of HKD132.0 million was recorded in the first half of 2013, representing a decline by 1.1% compared with the same period of last year.

For the first half of 2013, the Group's automation business division achieved revenue of HKD1.5 million, representing 0.6% of the Group's total revenues. The division is proactively seeking for opportunities in order to breakthrough into different high growth industries. The revenue initially recorded in the first half of 2013 was mainly driven by supplying customized automation equipments to the electronic cigarette makers in China.

Gross Profit and Gross Profit Margin

Gross profit for the first half of 2013 was HKD76.0 million, representing a decrease of HKD67.9 million, or 47.1%, from the gross profit of HKD143.9 million for the same period of last year. The decline of gross profit was primarily due to decrease in revenue and a reduction in gross profit margin. Gross profit as a percentage of total revenue, or gross profit margin, dropped to 29.6% for the first half of 2013 as compared with 39.3% for the first half of 2012. The drop in gross profit margin was primarily due to continuous drop of selling prices of optical networking products and the adoption of competitive pricing strategy for all product lines including 40G optical networking products.

Other Gains

Other gains increased significantly by HKD6.4 million from HKD0.2 million for the first half of 2012 to HKD6.6 million for the first half of 2013. The surge was primarily due to the increase in government grants. Government grants for the first half of 2013 was HKD6.2 million. This represents an increase of HKD6.1 million, from HKD0.1 million in the same period of last year.

Selling and Marketing Costs

Selling and marketing costs of HKD13.4 million for the first half of 2013 represents a decrease of HKD4.9 million, or 26.7%, compared with the selling and marketing costs of HKD18.3 million for the first half of 2012. The decrease in selling and marketing costs was primarily attributable to the decrease in sales commissions. Sales commissions for the first half of 2013 was HKD5.0 million. This represents a decrease of HKD4.5 million, or 47.9%, from HKD9.5 million in the same period of last year. As the Group generally incurs distributor commissions for overseas sales, the decrease was primarily attributable to the decrease of overseas sales by 46.3% compared with the same period of last year.

Selling and marketing costs as a percentage of revenue increased to 5.2% for the first half of 2013 as compared with 5.0% for the first half of 2012. The slight increase was primarily attributable to the fact that while variable costs such as sales commissions decreased in line with revenue, fixed costs such as salary cost and depreciation remained at the same level.

Research and Development Expenses

For the first half of 2013, R&D expenses increased by 36.3% to HKD45.3 million, from HKD33.3 million for the same period of last year. The rise in R&D expenses was mainly due to the increase in salary cost and materials consumed in R&D projects.

For the first half of 2013, the salary cost was HKD20.4 million, an increase of 37.8% as compared with the same period of last year. The increase was primarily attributable to the increased in hiring of R&D engineers included the R&D talents worked for the new business divisions and the USA R&D center.

The materials consumed in R&D projects was HKD15.7 million, an increase of 46.7% as compared with the same period of last year. The increase was primarily attributable to the additional R&D projects for new products for next-generation network and new business divisions.

R&D expenses as a percentage of revenue increased to 17.7% for the first half of 2013 as compared with 9.1% for the first half of 2012. The rise in R&D expenses and its percentage of revenues were mainly due to decrease in revenue and the increase in salary cost and materials used in R&D projects as explained above.

Administrative Expenses

For the first half of 2013, administrative expenses were HKD50.3 million, which was 7.4% higher as compared with HKD46.8 million for the same period of last year. The increase in administrative expenses was primarily attributable to the increase in depreciation of fixed assets, utilities expenses, transportation costs and low value consumables costs which were partially offset by the decrease in share options cost.

The depreciation of fixed assets for the first half of 2013 was HKD4.0 million, an increase of 180.0% from HKD1.4 million for the first half of 2012. The increase was attributable to additional deprecation brought by the new factory, since it got ready for use and started operation during the first half of 2013.

For the first half of 2013, the utilities expenses was HKD6.2 million, an increase of 274.9% as compared with the same period of last year. The increase was primarily attributable to the fact that additional recurring expenses of these kinds were incurred since the usable space increased by 3.3 times after relocation to the new factory.

The transportation costs and low value consumables costs for the first half of 2013 were HKD1.9 million and HKD2.1 million respectively, an increase of 384.7% and 114.4% respectively as compared with the same period of last year. The higher costs were mainly attributable to the one-time expenses incurred for the relocation to the new factory.

The share options cost for the first half of 2013 was HKD4.2 million, a decrease of 61.0% from HKD10.8 million for the first half of 2012. The decrease was primarily attributable to most of the share options costs related to the options granted to the administrative staff were already fully amortized in the prior years. In addition, a one-time expense was incurred for the replacement share options granted in the first half of 2012.

Administrative expenses as a percentage of revenues increased to 19.6% for the first half of 2013 as compared with 12.8% for the first half of 2012. The increase was mainly due to the decrease in revenue.

Finance Income

For the first half of 2013, net finance income which amounted to HKD10.2 million is an increase of HKD4.4 million from the HKD5.8 million for the same period of last year. The increase in net finance income was primarily due to net exchange gain, which is partially offset by the decrease in interest income. A net exchange gain of HKD5.9 million was recorded in the first half of 2013, compared with a net exchange loss of HKD0.3 million of the same period of last year. The net exchange gain recorded for the first half of 2013 was primarily attributable to the appreciation in Reminbi Yuan ("RMB") as the Company held most of the cash in RMB rather than its functional currency. The decline in interest income is mainly due to the amount of cash and fixed deposit placed in the bank decreased, as some of these were utilized for capital expenditure related to the new factory.

Share of Result of a Joint Venture

Share of result of a joint venture of HKD0.6 million in the first half of 2013 represents the Group's share of loss of a joint venture which was brought by the joint venture's daily operating expense. No such investment was held in the first half of 2012.

(Loss)/Profit Before Tax

Loss before tax amounted to HKD16.8 million was recorded in the first half of 2013, compared with profit before tax amounted to HKD51.4 million for the first half of 2012. The loss for the first half of 2013 was primarily due to decrease in revenue and gross profit as well as increase in R&D expenses and administrative expenses as described above.

Income Tax Expenses

Currently, income tax expenses of the Group consist of Hong Kong profits tax, PRC EIT and the U.S.A. income tax.

Income tax expenses for the first half of 2013 amounted to HKD6.0 million. This represents a drop of HKD2.3 million, or 26.9% from the income tax expense of HKD8.3 million for the same period of last year. Even the Group incurred a net loss during the first half of 2013, income tax expenses were recorded because certain subsidiaries of the Group recorded a taxable gain and deferred tax assets of HKD4.4 million for O-Net Shenzhen, a subsidiary located at the PRC, was written down.

The applicable tax rate for Hong Kong profits is 16.5%. PRC EIT is based on the assessable income of entities within the Group that are incorporated in the PRC, and adjusted for items which are not assessable or deductible for PRC EIT purpose. The U.S.A. income tax is based on the assessable income of the entity within the Group that is incorporated in the U.S.A., and adjusted for items which are not assessable or deductible for the U.S.A. income tax purpose.

(Loss)/Profit Attributable to Equity Holders of the Company

Loss attributable to equity holders amounted to HKD22.8 million was recorded in the first half of 2013, compared with profit attributable to equity holders amounted to HKD43.2 million for the first half of 2012. The loss for the first half of 2013 was primarily due to decrease in revenue and gross profit as well as increase in R&D expenses and administrative expenses as described above.

NON-GAAP FINANCIAL PERFORMANCE

Reconciliation of Non-GAAP Financial Measures

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

	For the period ended 30 June	
	2013	2012
	HKD'000	*HKD'000*
Adjustment to measure non-GAAP gross profit		
Gross Profit	**75,979**	143,871
Adjustment related to cost of sales		
Provision for excess and obsolete inventory	**3,159**	–
Non-GAAP Gross Profit	**79,138**	143,871
Adjustment to measure non-GAAP net profit		
Net (loss)/profit	**(22,815)**	43,189
Adjustment related to cost of sales		
Provision for excess and obsolete inventory	**3,159**	–
Adjustments to measure to operating expenses		
Share options granted to Directors, employees and sales distributors	**6,871**	14,492
Amortization of intangible assets	**376**	429
One-time expenses for the relocation of the new factory	**1,755**	–
Write-down of deferred tax assets	**4,351**	–
Adjustments related to other non-operating expenses		
Share of result of a joint venture	**620**	–
Non-GAAP Net (Loss)/Profit	**(5,683)**	58,110
Non-GAAP (Loss)/Earnings Per Share		
– Basic	**(0.01)**	0.07
– Diluted	**(0.01)**	0.07
Gross Profit Margin	**29.6%**	39.3%
Non-GAAP Gross Profit Margin	**30.8%**	39.3%

Non-GAAP Profit Analysis

Non-GAAP net loss for the first half of 2013 was HKD5.7 million, or HKD0.01 per share, compared with non-GAAP net income of HKD58.1 million, or HKD0.07 per share, reported for the first half of 2012. Non-GAAP results for the first half of 2013 exclude HKD3.2 million in provision for excess and obsolete inventory, HKD6.9 million in share options granted to directors and employees expenses, HKD0.4 million in amortization of intangible assets, HKD1.8 million in one-time expenses incurred for the relocation to the new factory and HKD4.4 million in write-down of deferred tax assets. Non-GAAP results for the first half of 2012 exclude HKD14.5 million in share options granted to directors and employees expenses and HKD0.4 million in amortization of intangible assets.

Future Prospects

In the past few years the Group has been actively pursuing a strategy of innovation and diversification. On innovation initiative, with the establishment of USA R&D center last year, the Group is planning to introduce a series of high-growth next-generation active products for telecommunication and data-communication markets. The Group believes beginning from early next year such new products will start gradual contribution to its business and will eventually take the Group's core business in optical networking back to high-growth track. In addition, the Group's diversification effort has already commenced sales generation in 2013. The Group's automation business has quickly identified some rapid-growth market segments and shall help to drive its overall business expansion in the coming years.

Optical Networking Business

Despite the weakness of the first half of 2013, the beginning of the second half of 2013 has seen some positive sign of business turnaround. The Group's large overseas customers are back to order some large quantity products, while domestic customers have also indicated higher purchase order demand in near term. The Group is seeing positive demand for its transmission, power management and wavelength management products. Recently, China's State Council has issued a new set of guidelines to fast track information technology ("IT") related consumption through the promotion of infrastructure development of IT and related technologies. With the "Broadband China" strategy under the Twelfth Five-Year Plan, China's government will put the main point of policy adjustment to realize the structure adjustment by large scale of technology innovation. By 2015, the broadband access speed in Chinese city households should reach 20 megabits per second ("Mbps") while rural households are expected to have a broadband speed of 4 Mbps. To this end, the Group will continue to put resources effectively to improve its leading position in the optical networking industry. On our passive products while continuing our effort on traditional free space optics technology, the Group is actively evaluating various partnership policies on photonic integration technologies. The Group's USA R&D center is also working on next-generation 100G technologies with the goal to launch products in 2014, which shall help to take the Group's business scale to a higher level and benefit its growth for many years to come.

New Businesses

The Group's automation business was started last year, and already achieved initial success with delivered products to customers during the first half of 2013. The Group's automation business adopts a strategy of focusing on high-growth, under-served market segment where the Group's traditional production line customization approach forms a great competitiveness. Since the automation division's launch less than a year, the Group has become a leading supplier of equipment solution provider for the fast-growing electronic cigarette manufacturing industry in China. Currently the Group has established supply relationships with several large electronic cigarette makers in China, and believes this new business shall help to drive the Group's business scale and generate new income in second half this year and next year.

In addition to automation, the Group has also invested in new technology of touch panel. The Group made an announcement on 4 June 2013, stating that the Group had entered into the touch panel industry through an establishment of joint venture with OPDI Technologies A/S, a Danish company focused in photonic sensor technologies which demonstrates the Group's willingness to enter new industry with explosive growth. The first-generation sample touch panel is expected to be completed by December 2013 and the joint venture expects to generate business with certain overseas customers in 2014.

In conclusion, the Group has invested, and will continue to invest in new business opportunities that are innovative and create substantial new value to its business. Efforts in past years shall very soon start to bring new energy to the Group's top and bottom lines. Based in the newly completed facility in Pingshan, Shenzhen, the Group is ready to embark on another fast growth run, which shall bring improved returns and enhanced value to the shareholders.

Group's Liability, Financial Resources and Capital Structure

As at 30 June 2013, the Company's issued share capital was approximately HKD7.4 million divided into 744,634,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,346.1 million (31 December 2012: HKD1,388.7 million). The Group had current assets of approximately HKD933.2 million and current liabilities of approximately HKD172.9 million and the current ratio was 5.4 times as at 30 June 2013 (31 December 2012: 5.5 times). The Group's net debt-to-equity ratio (calculated as total borrowing net of cash equivalents over shareholders' equity) and the gearing ratio (calculated as total borrowings over shareholders' equity) were not applicable as at 30 June 2013 and 31 December 2012 since the Group did not have any borrowing.

As of 30 June 2013, the Group had cash and cash equivalents of approximately HKD364.7 million (31 December 2012: HKD558.9 million). The significant decrease was due to the capital expenditure on property, plant and equipment and investment in term deposits made during the reporting period. The majority of the Group's funds was deposits 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 six months ended 30 June 2013, the Company repurchased its own shares at a total consideration of HKD20.8 million by its working capital.

Pledge on Group Assets

As at 30 June 2013, HKD13.0 million bank deposits was pledged as guarantee for payables due to contractors and suppliers for the construction of the new plants in Shenzhen. The Group has also pledged bank deposits of HKD6.4 million as guarantee for bills payables due to raw material suppliers.

Capital Commitments and Contingent Liabilities

For the first half of 2013, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 30 June 2013, the Group had contractual capital commitments of approximately HKD88.2 million. As of 30 June 2013, 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 2013, 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 HKD98.5 million (30 June 2012: HKD92.4 million).

Exposure to Fluctuations in Exchange Rates and Related Hedge

The Group's costs and revenues are mainly in US dollars 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 risk is not significant, the Group currently does not have a foreign currency hedging policy. However, the management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

Employee Benefit

As at 30 June 2013, the Group had a total of 1,889 employees (30 June 2012: 2,230). The Group's staff cost (including Directors' fees) amounted to HKD102.1 million (30 June 2012: HKD108.9 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 provides a wide range of benefits including insurance, medical, provident funds and retirement plans to employees to sustain competitiveness of the Group.

A share option scheme, which was adopted before the Company listed on the main board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 29 April 2010 (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 2013, options in aggregate of 2,900,000 were granted to 5 employees of the Group (31 December 2012: options in aggregate of 35,851,000 were granted to 3 Directors and 307 employees of the Group). The Directors believe that the compensation packages offered by the Group to staff members are competitive in comparison with market standards and practices.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2013 (30 June 2012: Nil).

Significant Investments Held and Material Acquisition

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2013.

Future Plans for Material Investments/Capital Assets and Sources of Fund

As at 30 June 2013, 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.

Use of Proceeds from the Company's IPO

The net proceed received by the Company from the listing of the Company's shares on the SEHK on 29 April 2010 amounted to approximately HKD512.8 million. As at 30 June 2013, approximately HKD438.6 million of the proceeds so raised was used, and the proceeds of approximately HKD74.2 million remain unused.

Details of the used proceeds of approximately HKD438.6 million are as follows:

	Net IPO proceeds (HKD million)		
	Available	**Utilized**	**Unutilized**
New production facilities	200.0	200.0	–
Production line and research & development expansion	40.0	40.0	–
Repayment to Shenzhen Kaifa Technology Co., Ltd. for rent and operating expenses paid on behalf of the Group	34.0	34.0	–
Working Capital and Others including Mergers and Acquisition ("M&A")	238.8	164.6	74.2
Total	**512.8**	**438.6**	**74.2**

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

In the absence of suitable acquisition targets for the time being, the Board resolved to utilize part of the proceeds for the M&A to satisfy in full the Construction Cost on 11 March 2013 in order to better utilize the resources of the Group.

Due to the foreign exchange control in the PRC, most of the net proceeds from the IPO were deposited into banks in PRC and Hong Kong. The Group intends to utilize the net proceeds balance in the same manner and proportion as set out in the prospectus of the Company dated 19 April 2010 (the "Prospectus").

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 2013 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.

OTHER INFORMATION

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2013, the Company repurchased 14,522,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HKD1.27 to HKD1.59 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*
June 2013	14,522,000	1.59	1.27	20,758,706.60
	14,522,000			20,758,706.60

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 (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2013.

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 2013.

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 as its own code of corporate governance.

During the six months ended 30 June 2013, the Company was in compliance with all relevant code provisions set out in the CG Code except for the deviations 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.

- under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Tam Man Chi, the Co-chairman and a non-executive Director of the Company, did not attend the annual general meeting of the Company held on 7 May 2013 ("2013 AGM") due to the engagement in his own official business.

- under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company. Mr. Tam Man Chi, the Co-Chairman and a non-executive Director of the Company, did not attend the 2013 AGM due to the engagement in his own official business. However, he has actively participated in the Board meetings to get involved in the Company's affairs.

Save as those mentioned above, in the opinion of the Directors, the Company has met all the relevant code provisions set out in the CG Code during the six months ended 30 June 2013.

Audit Committee

The Company established an Audit Committee (the "Audit Committee") on 9 April 2010 with written terms of reference in compliance with the CG Code. 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 2013 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, 27 August 2013

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