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 2012

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 2012 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	
		2012	2011
	Note	***HKD'000***	*HKD'000*
Revenue		**365,659**	304,998
Cost of sales		**(221,788)**	(164,282)
Gross profit		**143,871**	140,716
Other gains – net		**152**	4,124
Selling and marketing costs		**(18,270)**	(14,191)
Research and development expenses		**(33,279)**	(25,677)
Administrative expenses		**(46,813)**	(50,684)
Operating profit		**45,661**	54,288
Finance income	5	**6,588**	12,158
Finance costs	5	**(804)**	(26)
Finance income – net	5	**5,784**	12,132
Profit before income tax	6	**51,445**	66,420
Income tax expenses	7	**(8,256)**	(16,975)
Profit for the period		**43,189**	49,445
Profit attributable to:			
Equity holders of the Company		**43,189**	49,445
Earnings per share for profit attributable to equity holders of the Company *(HKD per share)*			
– Basic	9	**0.05**	0.06
– Diluted	9	**0.05**	0.06

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

	Note	**As at 30 June 2012 (Unaudited)** ***HKD'000***	As at 31 December 2011 (Audited) *HKD'000*
ASSETS			
Non-current assets			
Land use right		**29,053**	29,541
Property, plant and equipment		**316,658**	240,091
Intangible assets		**394**	500
Deferred income tax assets		**3,331**	4,019
		349,436	274,151
Current assets			
Inventories		**137,661**	115,450
Trade and other receivables	10	**246,064**	294,523
Pledged bank deposits		**117,028**	66,253
Term deposits with initial term of over three months		**176,226**	50,700
Cash and cash equivalents		**579,123**	768,643
		1,256,102	1,295,569
Total assets		**1,605,538**	1,569,720
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital		**7,748**	8,000
Reserves		**1,340,511**	1,361,894
Total equity		**1,348,259**	1,369,894
LIABILITIES			
Current liabilities			
Bank borrowings		**60,805**	–
Trade and other payables	11	**184,501**	175,545
Current income tax liabilities		**11,973**	24,281
		257,279	199,826
Total liabilities		**257,279**	199,826
Total equity and liabilities		**1,605,538**	1,569,720
Net current assets		**998,823**	1,095,743
Total assets less current liabilities		**1,348,259**	1,369,894

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Hong Kong dollar thousands unless otherwise stated)

	(Unaudited) For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Profit for the period	**43,189**	49,445
Other comprehensive income		
Currency translation differences	**(8,900)**	14,324
Total comprehensive income for the period	**34,289**	63,769
Total comprehensive income attributable to:		
Equity holders of the Company	**34,289**	63,769

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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 (the "SEHK") 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 networking systems (the "Listing Business").

These interim condensed consolidated financial statements are presented in HK dollars, unless otherwise stated. This interim condensed consolidated financial statements were approved for issue on 21 August 2012.

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", altogether defined as the "Controlling Shareholders").

In preparation for the IPO, a group reorganization (the "Reorganization") was undertaken, pursuant to which the group companies engaged in the Listing Business owned by O-Net Cayman were transferred to the Company. The Reorganization involved the following:

(i) On 6 November 2006, O-Net Communications Holdings Limited ("O-Net BVI") was incorporated in the British Virgin Islands ("BVI"). At the time of its establishment, O-Net BVI was wholly owned by Mr. Na Qinglin. In March 2007, Mr. Na Qinglin transferred all his equity interest in O-Net BVI to O-Net Cayman;

(ii) On 12 March 2007, O-Net BVI entered into agreements to acquire O-Net Cayman's equity interest in O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen") and O-Net Communications (HK) Limited ("O-Net Hong Kong"), the two subsidiaries engaging in the Listing Business at a consideration of HKD24,274,000;

(iii) On 12 November 2009, the Company was incorporated as a wholly owned subsidiary of O-Net Cayman with an authorized share capital of HKD390,000 divided into 39,000,000 shares of par value HKD0.01 each, and the initial subscriber share of par value HKD0.01 issued and allotted was transferred to O-Net Cayman.

(iv) On 22 February 2010, the Company issued an additional 9,999 shares of HKD0.01 each to O-Net Cayman and all the said 10,000 shares were credited as fully paid up by the Company in consideration of the transfer by O-Net Cayman of all its shareholding interests in O-Net BVI to the Company. After the transfer, O-Net BVI became a wholly-owned subsidiary of the Company and the Company became the holding company of the Group.

Under Hong Kong Financial Reporting Standards ('HKFRS') 3 (Revised) "Business Combination" which became effective for the financial year beginning 1 January 2010, the Reorganization relating to the transfer of the Listing Business to the Company is not 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 interim condensed consolidated financial statements of the Group are presented using the carrying values of the Listing Business controlled by the Company.

2 BASIS OF PREPARTION

These interim condensed consolidated financial statements for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with HKFRSs.

3 ACCOUNITNG POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, 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 2012. 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, based on 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. Therefore, the CODM considers that the Group has only one single operating segment and no segment information was disclosed for the six months ended 30 June 2012 and 2011.

All the reported revenues from sales of goods were made to external customers for the six months ended 30 June 2012 and 2011.

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

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
The PRC	**133,526**	166,366
Europe	**104,409**	68,621
North America	**25,785**	21,083
Other Asia countries excluding the PRC	**101,939**	48,928
	365,659	304,998

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2012 and 31 December 2011 are as follows:

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
The PRC	**345,988**	270,015
Hong Kong	**117**	117
	346,105	270,132

5. FINANCE INCOME – NET

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Finance income		
– Interest income	**6,588**	7,558
– Net exchange gain	**–**	4,600
Finance costs		
– Interest expenses on bank borrowings	**(488)**	(26)
– Net exchange loss	**(316)**	–
Finance income – net	**5,784**	12,132

6. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**94,405**	66,432
Share option expenses		
– For options granted to directors and employees	**14,492**	21,213
Raw materials consumed	**147,407**	133,150
Changes in inventories of finished goods and work in progress	**14,833**	(7,596)
Depreciation	**14,272**	11,049
Amortisation	**429**	415
Write back of impairment provision for doubtful receivables	**(328)**	(33)

7. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2012	2011
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax (b)	**3,152**	–
– PRC enterprise income tax (c)	**4,435**	19,235
Total current income tax	**7,587**	19,235
Deferred income tax	**669**	(2,260)
Income tax expenses	**8,256**	16,975

(a) The Company and O-Net BVI are not subject to profits tax in their jurisdiction.

(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.

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

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 at the end of 2011. It is entitled to a concessionary PRC EIT tax rate of 15% for a period of 3 years from 2011 to 2013.

As the outcome of the application for qualification as a High and New Technology Enterprise was uncertain during the six months ended 30 June 2011, the management considered the enacted tax rate applicable to O-Net Shenzhen was 24% for the six months ended 30 June 2011.

8. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2012 (30 June 2011: Nil).

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company for the six months (HKD'000)	**43,189**	49,445
Weighted average number of ordinary shares in issue (thousands)	**795,739**	832,832
Basic EPS (HKD per share)	**0.05**	0.06

(b) Diluted

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

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

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

	For the six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company for the six months (HKD'000)	**43,189**	49,445
Weighted average number of ordinary shares in issue (thousands shares)	**795,739**	832,832
Adjustments for share options (thousands shares)	**–**	4,098
Weighted average number of ordinary shares for the calculation of diluted EPS (thousands shares)	**795,739**	836,930
Diluted EPS (HKD per share)	**0.05**	0.06

10. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Trade receivables (a)	**196,221**	228,862
Less: provision for impairment of receivables	**(1,098)**	(1,346)
Trade receivables – net	**195,123**	227,516
Amounts due from related parties	**42**	42
Bills receivables (b)	**43,719**	60,148
Prepayments	**1,651**	2,171
Interest receivables	**2,698**	1,671
Other receivables	**2,831**	2,975
	246,064	294,523

(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 2012	31 December 2011
	HKD'000	*HKD'000*
Within 30 days	**71,125**	72,933
31 to 60 days	**45,373**	68,128
61 to 90 days	**44,681**	42,391
91 to 180 days	**32,233**	40,701
181 to 365 days	**2,493**	795
Over 365 days	**358**	3,956
	196,263	228,904

(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 2012	31 December 2011
	HKD'000	*HKD'000*
Within 30 days	**12,319**	7,769
31 to 90 days	**18,982**	24,951
91 to 180 days	**12,418**	27,428
	43,719	60,148

11. TRADE AND OTHER PAYABLES

	As at	
	30 June 2012	31 December 2011
	HKD'000	*HKD'000*
Trade payables (a)	**110,602**	80,108
Bills payables (b)	**27,303**	37,944
Accrued expenses	**14,068**	14,216
Payroll payable	**15,538**	18,775
Other payables	**16,554**	23,720
Advances from customers	**436**	295
Other taxes payable	**–**	487
	184,501	175,545

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

	As at **30 June 2012** *HKD'000*	As at 31 December 2011 *HKD'000*
Within 30 days	**36,404**	40,898
31 days to 60 days	**22,827**	16,221
61 days to 180 days	**46,573**	18,592
181 days to 365 days	**4,103**	724
Over 365 days	**695**	3,673
	110,602	80,108

(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 2012** *HKD'000*	As at 31 December 2011 *HKD'000*
Within 30 days	**5,164**	6,945
31 to 90 days	**9,861**	13,222
91 to 180 days	**12,278**	17,777
	27,303	37,944

12. SUBSEQUENT EVENT

Save for the repurchase of shares during the six months ended 30 June 2012, the Company further repurchased and cancelled 14,836,000 ordinary shares at a total consideration of HKD27,664,000 in July 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

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

INDUSTRY AND BUSINESS REVIEW

Uncertainties of the European financial crisis has been an ongoing drag to the world economy and turned 2012 into a year full of challenges. Unfortunately, the stringent policies of certain domestic China carriers slowed down their capital expenditure for the current reporting period, as a result, orders from domestic customers reduced significantly compared with the same period of last year. In addition, the delay of new products deployment had limited the growth in revenue. Nevertheless, the Group managed to overcome difficulties and further expand our business scale with customers. During the reporting period, the Group's revenues recorded moderately fast growth.

While the Group sustained growth in revenue for the reporting period, as the results of delay of new products deployment the higher mix of relatively lower margin legacy products and the adoption of competitive pricing strategy, the Group reported lower gross profit margin during the reporting period.

Meanwhile, because of the significant decrease in finance income resulting in a net exchange loss as opposed to a net exchange gain recorded for the same period of last year, lack of government grants and the significant increase in research and development ("R&D") expenses due to the additional R&D expenses for the new products and new business divisions, the Group's net profit was unavoidably affected. Even the Group took a number of measures to alleviate such impact, included continuously increasing its global market share, implementing stringent cost-control measures and improving internal efficiencies through increased automation production processes, which have partially mitigated the negative impact brought about by the operation, the Group consequently reported a low net profit compared with the same period of last year.

FINANCIAL REVIEW

Revenue

For the first half of 2012, the Group reported revenue of HKD365.7 million, representing a 19.9% growth over the same period of last year. This growth in revenue was attributable to strong growth from overseas customers offsetting the drop in demand from domestic customers.

In the overseas market, even the global capital expenditures remain muted as North America picks up but Asia falters and Europe remains quiet, the Group is continuously increasing its global market share. Moreover, significant investments in the next-generation networks, including the 40G/100G networks in some of the developed countries and the expansion of optical networks in certain Asia countries stimulate the demand of the Group's products. Consequently, revenues from the overseas increased by 67.4% to HKD232.1 million for the first half of 2012, representing 63.5% of its total revenues.

In the domestic market, even the telecommunication network carriers had planned to increase the capital expenditure of optical networks in 2012, the changing business environment led them to impose more stringent policies in their capital expenditure for the first half of 2012. The Group therefore recorded domestic revenue of HKD133.5 million, representing a decline by 19.7% compared with the same period of last year.

Gross Profit and Gross Profit Margin

Gross profit for the first half of 2012 was HKD143.9 million, representing an increase of HKD3.2 million, or 2.2%, from the gross profit of HKD140.7 million for the same period of last year. For the first half of 2012, although revenue reported a significant growth, gross profit only improved slightly when compared with the same period of last year due to reduction in gross profit margin. Gross profit, as a percentage of total revenue or gross profit margin, dropped to 39.3% for the first half of 2012 as compared with 46.1% for the first half of 2011. Even though the Group had continued to launch new products into the market during the year including next-generation products, the drop in gross profit margin was primarily due to a higher mix of relatively lower margin legacy products and the adoption of competitive pricing strategy in 2012.

Other Gains

Other gains dropped significantly by 96.3% from HKD4.1 million for the first half of 2011 to HKD0.2 million for the first half of 2012. The decline was primarily due to the decrease in government grants. Government grants for the first half of 2012 was HKD0.1 million. This represents a decrease of HKD3.6 million, from HKD3.7 million in the same period of last year. The decrease was primarily due to lack of government grants had been approved for the first half of 2012.

Selling and Marketing Costs

Selling and marketing costs of HKD18.3 million for the first half of 2012 represents an increase of HKD4.1 million, or 28.7%, compared with the selling and marketing costs of HKD14.2 million for the first half of 2011. Selling and marketing costs as a percentage of revenue increased to 5.0% for the first half of 2012 as compared with 4.7% for the first half of 2011. The increase in selling and marketing costs and its percentage of revenues were primarily attributable to the increase in sales commissions and salary cost.

Sales commissions for the first half of 2012 was HKD9.5 million. This represents an increase of HKD3.1 million, or 47.9%, from HKD6.4 million in the same period of last year. The increase was primarily attributable to the increase of overseas sales by 67.4% compared with the same period of last year. We generally incur distributor commission for overseas sales, therefore increasing revenue base from overseas customers results in increase in sales commissions, even a drop in effective commission rate was recorded. The effective commission rate, which is the result of total commissions paid by the Group divided by total overseas revenue, was 4.1% for the first half of 2012 and 4.6% for the first half of 2011. The decrease in the effective commission rate was primarily due to the fact that we paid lower commissions on the legacy products sold which contributed a higher sales mix during the reporting period.

For the first half of 2012, the salary cost was HKD3.3 million, representing an increase of 54.3% compared with the same period of last year. The increase was primarily attributable to increased hiring of sales personnel and rising wages to our sales personnel.

Research and Development Expenses

For the first half of 2012, R&D expenses increased by 29.6% to HKD33.3 million, from HKD25.7 million for the same period of last year. Meanwhile, R&D expenses as a percentage of revenue increased to 9.1% for the first half of 2012 as compared with 8.4% for the first half of 2011. The rise in R&D expenses and its percentage of revenues were mainly due to the increase in salary cost.

For the first half of 2012, the salary cost was HKD14.8 million, an increase of 86.9% 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 for the new business divisions and rising wages to our R&D engineers.

Administrative Expenses

For the first half of 2012, administrative expenses were HKD46.8 million, which is 7.6% lower compared with HKD50.7 million for the same period of last year. Administrative expenses as a percentage of revenues decreased to 12.8% for the first half of 2012 as compared with 16.6% for the first half of 2011. The decrease in administrative expenses and its percentage of revenue were primarily attributable to the increase in salary cost is fully offset by the decreases in share options cost, utilities expenses and materials consumed.

For the first half of 2012, the salary cost was HKD22.4 million, which represents an increase of 29.8% compared with the corresponding figures in the previous year. This increase was primarily attributable to our strengthened efforts in hiring new staff members and rising wages.

The share options cost for the first half of 2012 was HKD10.8 million, a decrease of 35.3% from HKD16.7 million for the first half of 2011. The decrease was primarily attributable to the fact that no additional new share options was granted in the first half of 2012 while certain additional share options were granted during the same period of last year.

For the first half of 2012, the utilities expenses and materials consumed were HKD1.5 million and HKD1.2 million respectively, a decrease of 32.1% and 59.4% as compared with the same period of last year. The decrease was primarily attributable to the improvement in the operating efficiency.

Finance Income

For the first half of 2012, net finance income which amounted to HKD5.8 million is a decrease of HKD6.4 million from the HKD12.1 million for the same period of last year. The drop in net finance income was primarily due to a net exchange loss of HKD0.3 million recorded, compared with a net exchange gain of HKD4.6 million of the same period of last year. The net exchange loss recorded for the first half of 2012 was primarily attributable to the depreciation in Reminbi Yuan ("RMB") as the Company held most of the cash in RMB rather than its functional currency.

Profit Before Tax and Profit Before Tax Margin

Profit before tax decreased by HKD15.0 million from HKD66.4 million for the first half of 2011 to HKD51.4 million for the first half of 2012. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 21.8% for the first half of 2011 to 14.1% for the first half of 2012. The decrease in profit before tax and profit before tax margin for the first half of 2012 was primarily due to decrease in gross profit margin and finance income, lack of government grants, as well as increase in selling and marketing expenses and R&D expenses as described above.

Income Tax Expenses

Currently, income tax expenses of the Group consist of PRC Enterprise Income Tax ("PRC EIT") and Hong Kong profits tax.

Income tax expenses for the first half of 2012 amounted to HKD8.3 million. This represents a drop of HKD8.7 million, or 51.4% from the income tax expense of HKD17.0 million for the same period of last year. The drop in income tax expenses was primarily due to the drop of the estimated enacted tax rate of O-Net Shenzhen, the Group's subsidiary located in the PRC, from 24% to 15%.

As the outcome of the application for qualification as a High and New Technology Enterprise was uncertain in the first half of 2011, the management considered the enacted tax rate applicable to O-Net Shenzhen was 24% for the first half of 2011. The qualification was later proved to be successful and O-Net Shenzhen is entitled to the concessionary PRC EIT tax rate of 15% in 2011, 2012 and 2013.

The applicable tax rate for Hong Kong profits is 16.5% for 2011 and 2012.

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

Profit attributable to equity holders decreased by HKD6.2 million from HKD49.4 million for the first half of 2011 to HKD43.2 million for the first half of 2012. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, decreased from 16.2% for the first half of 2011 to 11.8% for the first half of 2012. The decrease in profit attributable to equity holders and net profit margin for the first half of 2012 was primarily due to the decrease in gross profit margin and finance income, lack of government grants, as well as increase in selling and marketing expenses and R&D 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 to compare our financial performance with most of the comparable companies listed on NASDAQ in the United States, which also provides non-GAAP financial measures. Generally, these non-GAAP financial measures are a numerical measure of a Group's performance and financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). A reconciliation of non-GAAP financial measures can be found in the accompanying tables. The Group believes that while these non-GAAP financial measures are not a substitute for results, they provide a basis for evaluating the Company's cash requirements for ongoing operating activities. These non-GAAP financial measures have been reconciled to the nearest measures as required under HKFRS issued by the HKICPA.

	For the year end 30 June	
	2012	2011
	HKD'000	*HKD'000*
Adjustments to measure non-GAAP gross profit		
Gross Profit	**143,871**	140,716
Adjustments related to cost of sales	**–**	–
Non-GAAP Gross Profit	**143,871**	140,716
Adjustments to measure non-GAAP net profit		
Net profit	**43,189**	49,445
Adjustments to measure to operating expenses		
Share options granted to directors, employees and sales distributors	**14,492**	21,213
Amortization of intangible assets	**429**	415
Non-GAAP Net Profit	**58,110**	71,073
Non-GAAP EPS		
– Basic	**0.07**	0.09
– Diluted	**0.07**	0.09
Gross Profit Margin	**39.3%**	46.1%
Non-GAAP Gross Profit Margin	**39.3%**	46.1%
Net Profit Margin	**11.8%**	16.2%
Non-GAAP Net Profit Margin	**15.9%**	23.3%

Non-GAAP Profit Analysis

Non-GAAP net income for the first half of 2012 was HKD58.1 million, or HKD0.07 per share, compared with non-GAAP net income of HKD71.0 million, or HKD0.09 per share, reported for the first half of 2011. 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. Non-GAAP results for the first half of 2011 exclude HKD21.2 million in share options granted to directors and employees expenses and HKD0.4 million in amortization of intangible assets.

Research and Development

During the reporting period, the Group continues to adopt our "Three Strategic Initiatives" by conducting a wide range of R&D activities in order to maintain its leadership in technology, its efficiency in product development and its capabilities in launching new products. During the reporting period, the Group launched a total of 112 new products into the optical networking industry.

In addition, the Group is planning to set up a new R&D office in USA soon for enhancing innovations in new products. This strategic initiative in the USA helps facilitate the Group's recruitment of overseas industry talent at a major source of technology innovation and seize future business opportunities in a timely fashion to generate long term growth for the Group.

Meanwhile, as the Group saw the needs to diversify its business for new growth momentum, the Group continues to recruit new talents in all areas to strengthen our core R&D competence. To this end, the Group had hired a new Vice President of R&D in charge of the R&D of the Automation Equipment Division. Besides, fiber laser product is expected to be launched by fiber laser division in the fourth quarter of 2012.

New Manufacturing Plant

The Group has progressed well in a new manufacturing plant first announced in 2010 which located in Pishan District, Shenzhen City, China. The factory building has been topped out and major construction work will also be completed in August 2012. Operation is expected to commence within the fourth quarter of 2012.

The plant sets our foot into the most strategic point of the automation production processes with the solid foundation of the Group by the vertical integrated business model to maximize its profits and market share in optical networking industry.

Future Prospects

As broadband subscribers and data traffic surge significantly given the rapid development of internet applications, and online media, telecommunication, and broadcasting and television network operators globally are accelerating the expansion and upgrade of the optical networks, the Group's outlook for our core business is promising. Even the Group is optimistic of delivering top line growth, profitability will remain challenging. As the Group is starting to see benefits from the new products launched during the reporting period, the margins of optical networking product are expected to show an improving trend in the second half of 2012.

Apart from generating growth in its existing optical networking business, the Group also aims to capture growth opportunities in the new business, such as the automation equipment and fiber laser product industries. To this end, the Group had already started to explore the automation equipment market and the R&D of fiber laser products in 2011 as well as formed the Automation Division and the Fiber Laser Division during the reporting period. This strategic move will allow the Group to expand into new business sectors that could become new sources of income for the Group in the future.

In the coming five years, our goal is to become a diversified high-tech company. With excellent R&D, a strong balance sheet, our market leadership position and efficient operations, the Group is well positioned to grow even more strongly once the global economy enters a sustained period of recovery.

Group's Liquidity, Financial Resources and Capital Structure

As at 30 June 2012, the Company's issued share capital was approximately HKD7.8 million divided into 779,155,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,348.3 million (31 December 2011: HKD1,369.9 million). The Group had current assets of approximately HKD1,256.1 million and current liabilities of approximately HKD257.2 million and the current ratio was 4.9 times as at 30 June 2012 (31 December 2011: 6.5 times). 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 2012 since the Group's cash equivalents exceeded the total borrowings. The gearing ratio (calculated as total borrowings over shareholders' equity) was 0.05 (31 December 2011: not applicable since the Group did not have any borrowing.)

As of 30 June 2012, the Group had cash and cash equivalents of approximately HKD579.1 million (31 December 2011: HKD768.6 million). The significant decrease was due to the investment in term deposits made during the reporting 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.

For the first half of 2012, the Company repurchased its own shares at a total consideration of approximately HKD46.4 million by its working capital.

Pledge on Group Assets

As at 30 June 2012, HKD28.2 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 HKD21.1 million and HKD67.7 million as guarantee for bills payables due to raw material suppliers and collateral for a secured bank loan respectively.

Capital Commitments and Contingent Liabilities

For the first half of 2012, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 30 June 2012, the Group had contractual capital commitments of approximately HKD37.9 million. As of 30 June 2012, 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 2012, 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 HKD92.4 million (30 June 2011: HKD120.2 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 Benefits

As at 30 June 2012, the Group had a total of 2,230 employees (30 June 2011: 2,021). The Group's staff cost (including Directors' fees) amounted to HKD108.9 million (30 June 2011: HKD87.6 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 2012, options in aggregate of 33,851,000 were granted to 3 Directors and 307 employees of the Group in exchange for the cancellation of share options previously granted to them on 2 June 2010 and 13 January 2011 respectively (31 December 2011: options in aggregate of 20,868,000 were granted to 2 Directors and 316 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 2012 (30 June 2011: Nil).

Significant Investments Held and Material Acquisition

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates for the first half of 2012.

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

As at 30 June 2012, the Group maintained sufficient funds for the capital investment and operations in the coming year.

Material Event Since the end of the Financial Period

Apart from the share repurchase and cancellation disclosed at "Purchase, Sale, or Redemption of the Company's Listed Securities" under "Other Information", there has been no material event since the end of the financial period.

Use of Net Proceeds from the Company's Initial Public Offering

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 2012, approximately HKD339.8 million of the proceeds so raised was used, and the proceeds of approximately HKD173.0 million remain unused.

Details of the used proceeds of approximately HKD339.8 million are as follows:

	Net IPO proceeds (HKD million)		
	Available	**Utilised**	**Unutilised**
New production facilities	200.0	164.0	36.0
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 M&A	238.8	101.8	137.0
Total	512.8	339.8	173.0

Due to the foreign exchange control in the PRC, most of the net proceeds from the IPO was deposited into a licensed financial institution in 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.

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 2012 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, Sale or Redemption of the Company's Listed Securities

For the first half of 2012, the Company repurchased 25,143,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD1.63 to HKD2.04 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*
May 2012	14,144,000	1.88	1.63	24,916,000
June 2012	10,999,000	2.04	1.78	21,452,000
Total	25,143,000			46,368,000

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 reporting period.

In July 2012, the Company further repurchased and cancelled 14,836,000 the Company's listed securities at an aggregate purchase consideration of HKD27,579,000.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the SEHK ("Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code for the first half of 2012.

Code On Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005 and was recently revised and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code") with effect from 1 April 2012.

For the first half of 2012, the Company was in compliance with the code provisions set out in the Former CG code and the New CG Code except for the deviations from code provision A.2.1 which is explained below.

Code provision A.2.1 of the Former CG Code and the New CG Code provides that the responsibilities between the chairman ("Chairman") and the chief executive officer ("CEO") should be divided. 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 those mentioned above, in the opinion of the Directors, the Company has met the code provisions set out in the Former CG Code and the New CG Code for the first half of 2012.

Audit Committee

The Company established the Audit Committee on 9 April 2010 with written terms of reference in compliance with the Former CG Code and was revised on 30 March 2012 to comply with the New 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 2012 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, 21 August 2012

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.