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 2014

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 2014 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	
		2014	2013
	Note	***HKD'000***	*HKD'000*
Revenue		**400,172**	256,636
Cost of sales		**(265,547)**	(180,657)
Gross profit		**134,625**	75,979
Other gains – net		**6,938**	6,626
Selling and marketing costs		**(20,131)**	(13,394)
Research and development expenses		**(56,185)**	(45,349)
Administrative expenses		**(54,857)**	(50,263)
Operating profit/(loss)		**10,390**	(26,401)
Finance income	*8*	**3,473**	10,241
Share of result of an associate		**(2,944)**	–
Share of result of a joint venture		**(1,634)**	(620)
Profit/(loss) before income tax	*7*	**9,285**	(16,780)
Income tax expenses	*9*	**(1,517)**	(6,035)
Profit/(loss) for the period		**7,768**	(22,815)
Profit/(loss) attributable to:			
Equity holders of the Company		**7,768**	(22,815)
Earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company *(HKD per share)*			
– Basic	*11*	**0.01**	(0.03)
– Diluted	*11*	**0.01**	(0.03)

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note	**As at 30 June 2014 (Unaudited)** *HKD'000*	As at 31 December 2013 (Audited) *HKD'000*
ASSETS			
Non-current assets			
Land use right		**28,586**	29,119
Property, plant and equipment		**582,111**	570,894
Other non-current assets		**–**	10,068
Intangible assets		**30**	155
Interest in an associate		**21,235**	–
Interest in a joint venture		**18,940**	21,099
Deferred income tax assets		**5,836**	5,836
Available-for-sale financial assets		**3,440**	3,440
Derivative financial instruments		**2,451**	2,451
		662,629	643,062
Current assets			
Inventories		**169,827**	163,296
Trade and other receivables	*5*	**424,158**	317,958
Other current assets		**4,167**	1,776
Pledged bank deposits		**15,470**	19,539
Term deposits with initial term of over three months		**64,630**	155,662
Cash and cash equivalents		**197,559**	281,828
		875,811	940,059
Total assets		**1,538,440**	1,583,121
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital		**7,091**	7,239
Reserves		**1,340,249**	1,366,819
Total equity		**1,347,340**	1,374,058

	Note	As at 30 June 2014 (Unaudited) *HKD'000*	As at 31 December 2013 (Audited) *HKD'000*
LIABILITIES			
Non-current liabilities			
Deferred government grants		–	6,118
Current liabilities			
Trade and other payables	*6*	**187,190**	199,876
Current income tax liabilities		**3,910**	2,082
Amounts due to related parties		–	987
		191,100	202,945
Total liabilities		**191,100**	209,063
Total equity and liabilities		**1,538,440**	1,583,121
Net current assets		**684,711**	737,114
Total assets less current liabilities		**1,347,340**	1,380,176

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited) For the six months ended 30 June	
	2014	2013
	HKD'000	*HKD'000*
Profit/(loss) for the period	**7,768**	(22,815)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(6,179)**	16,919
Total comprehensive income for the period	**1,589**	(5,896)
Total comprehensive income attributable to:		
Equity holders of the Company	**1,589**	(5,896)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

O-Net Communications (Group) Limited (the "Company") was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company and was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, 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 20 August 2014.

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2014 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 2013, 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 2013, 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 2014. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's result of operations or financial position.

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

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

4. SEGMENT REPORTING

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

Due to the fact that the Group continued to diversify its product ranges of its optional networking business, starting from the second half of 2010, the senior executive management team no longer review and assess the performance of each individual product or a particular category of products of its optical networking business. Instead, they assess performance and allocate resources according to the total revenues derived from each customer. Gross/net profits and costs are managed in aggregate on entity level, not on individual product or customer level. In addition, due to the Group started to diversify into new business starting from 2012 and the new business was under developing and still immaterial, the CODM considers that the Group has only one single operating segment of its optical networking business and no segment information was disclosed.

All the reported revenues from sales of goods were made to external customers for the six months ended 30 June 2014 and 2013.

(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	
	2014	2013
	HKD'000	*HKD'000*
The PRC	**176,737**	131,961
Europe	**119,689**	66,102
North and South America	**28,080**	18,649
Other Asia countries excluding the PRC	**75,666**	39,924
	400,172	256,636

(b) The total non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2014 and 31 December 2013 are as follows:

	As at	
	30 June 2014	31 December 2013
	HKD'000	*HKD'000*
The PRC	**608,349**	605,991
Hong Kong	**40,422**	22,803
The United States of America (the "USA")	**2,131**	2,541
	650,902	631,335

5. TRADE AND OTHER RECEIVABLES

	As at	
	30 June	31 December
	2014	2013
	HKD'000	*HKD'000*
Trade receivables *(a)*	**264,364**	252,175
Less: provision for impairment of receivables	**(3,212)**	(480)
Trade receivables – net	**261,152**	251,695
Amounts due from related parties *(a)*	**12,047**	3,886
Bills receivables *(b)*	**53,231**	45,199
Prepayments	**9,704**	6,345
Interest receivables	**5,214**	3,056
Other receivables *(c)*	**82,810**	7,777
	424,158	317,958

(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	31 December
	2014	2013
	HKD'000	*HKD'000*
Within 30 days	**106,244**	95,680
31 to 60 days	**65,694**	69,034
61 to 90 days	**46,903**	54,618
91 to 180 days	**31,316**	27,166
181 to 365 days	**18,001**	5,713
Over 365 days	**8,253**	3,850
	276,411	256,061

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

Bills receivables	As at	
	30 June	31 December
	2014	2013
	HKD'000	*HKD'000*
Within 30 days	**10,838**	8,772
31 to 90 days	**24,013**	14,550
91 to 180 days	**18,380**	21,877
	53,231	45,199

(c) The other receivables are as follows:

Other receivables	As at	
	30 June 2014	31 December 2013
	HKD'000	*HKD'000*
Deposit to a third party *(i)*	**29,903**	–
Deposit to the trustee of share award scheme *(ii)*	**50,010**	–
Others	**2,897**	7,777
	82,810	7,777

(i) A sale of goods agreement had been signed between a subsidiary of the Company, O-Net Communications (Shenzhen) Limited ("O-Net SZ") and a third party, Integrated Photonics, Inc. ("IPI") in April 2014 for securing the supply of faraday rotators by IPI in coming 5 years. In return, O-Net SZ had paid HKD29,903,000 to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI shall keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount to O-Net SZ after 5 years. As security for IPI's obligations to pay the cost of the Platinum, O-Net SZ granted a first priority Lien by IPI for the interest in the Platinum.

(ii) On 9 May, 2014, the Company had adopted the Share Award Scheme as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. The Company appointed O-Net Share Award Plan Limited as the trustee. As at 30 June, 2014, the Company had transferred HKD50,010,000 to the trustee as the deposit for acquiring its own shares for the purpose of the share award scheme.

6. TRADE AND OTHER PAYABLES

	As at	
	30 June 2014	31 December 2013
	HKD'000	*HKD'000*
Trade payables *(a)*	**122,786**	118,501
Bills payables *(b)*	**4,910**	1,367
Accrued expenses	**10,275**	12,309
Payroll payable	**20,495**	17,756
Other payables	**10,226**	39,141
Advances from customers	**8,001**	6,597
Other taxes payable	**10,497**	4,205
	187,190	199,876

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

Trade payables	As at	
	30 June	31 December
	2014	2013
	HKD'000	*HKD'000*
Within 30 days	**33,709**	36,135
31 days to 60 days	**18,564**	36,758
61 days to 180 days	**31,412**	41,566
181 days to 365 days	**29,949**	367
Over 365 days	**9,152**	3,675
	122,786	118,501

(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
	2014	2013
	HKD'000	*HKD'000*
Within 30 days	**1,243**	–
31 to 90 days	**3,667**	–
91 to 180 days	**–**	1,367
	4,910	1,367

7. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is stated after crediting and charging the following:

	For the six months ended 30 June	
	2014	2013
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**121,091**	95,190
Share option expenses – for options granted to directors and employees	**6,333**	6,871
Raw materials consumed	**172,705**	123,545
Changes in inventories of finished goods and work in progress	**5,237**	3,472
Depreciation	**22,658**	20,461
Amortisation	**372**	376
Provision for impairment provision for doubtful receivables	**–**	1,167
Provision for write-down of inventories	**3,474**	3,159

8. FINANCE INCOME

	For the six months ended 30 June	
	2014	2013
	HKD'000	*HKD'000*
Finance income		
– Interest income	**7,145**	4,353
– Net exchange (loss)/gain	**(3,672)**	5,888
Finance income	**3,473**	10,241

9. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2014	2013
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax *(b)*	**–**	1,213
– PRC enterprise income tax *(c)*	**1,517**	–
– Taxation in other overseas jurisdiction *(d)*	**–**	471
Total current income tax	**1,517**	1,684
Deferred income tax	**–**	4,351
Income tax expenses	**1,517**	6,035

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

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

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

In addition, O-Net SZ 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 2012 to 2014.

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

10. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2014 (30 June 2013: Nil).

11. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share are calculated by dividing the profit/(loss) 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	
	2014	2013
	HKD'000	*HKD'000*
Profit/(loss) attributable to equity holders of the Company for the six months *(HKD'000)*	**7,768**	(22,815)
Weighted average number of ordinary shares in issue *(thousands)*	**717,806**	754,327
Basic earnings/(loss) per share *(HKD per share)*	**0.01**	(0.03)

(b) Diluted

Diluted earnings/(loss) per share are calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted by the Company (collectively forming the denominator for computing the diluted earnings/(loss) 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	
	2014	2013
Profit/(loss) attributable to equity holders of the Company for the six months *(HKD'000)*	**7,768**	(22,815)
Weighted average number of ordinary shares in issue *(thousands shares)*	**717,806**	754,327
Adjustments for exercise of share options *(thousands shares)*	**(1,579)**	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(thousands shares)*	**716,227**	754,327
Diluted earnings/(loss) per share *(HKD per share)*	**0.01**	(0.03)

12. SUBSEQUENT EVENT

The Group did not have any significant subsequent event after the period ended 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has focused on the research, development, manufacture and sale of passive optical networking products which include subcomponents, components, modules and subsystems mainly used in broadband and optical networking systems. With its signature strategy "Innovation", the Group has started research and development ("R&D") of certain active optical networking products used in the next generation telecommunications and data-communications systems by its USA R&D center. In executing its new strategy "Diversify for Growth", the Group has identified certain new businesses including automation, coating and touch panels with promising potential. Based on its core proprietary technologies and vertically integrated business model, the Group aims to become a leading diversified high-tech company.

INDUSTRY REVIEW AND BUSINESS REVIEW

Optical Networking Business

Driven by the need to support increasing data traffic and new cloud-based service opportunities, the optical component market had started to recover in second half of 2013, and finally global optical component revenue in 2013 rose by 2.7% to USD6.8 billion. However, while the optical component market contracted 1% sequentially from forth quarter of 2013 to first quarter of 2014 with a total quarterly revenue of USD1,740 million, it expanded 7% compared to the same period last year. The price negotiated by telecommunication equipment vendors for components was a major contributing factor to the market's quarterly contraction, with optical component vendors citing price declines. Despite the contraction in the first quarter of 2014, Ovum still expects that the annual growth rate of optical components market will be 8.4% in 2014 and it will reach its historic peak of USD12.3 billion in 2019. This forecast calls for a compound annual growth rate of 10% for 2013 through 2019. As the Group has successfully increased its market share, its optical networking revenue for the reporting period achieved a solid growth at 51.6% over the same period of last year and recorded HKD386.7 million compared to HKD255.2 million during the first half of 2013. Besides, the gross profit margin of the optical networking business increased from 29.6% for the first half of 2013 to 33.4% for the first half of 2014.

Automation Business

China's automation equipment industry has been developing at a fast pace driven by the enterprise upgrade and regeneration and the progress of migration of the domestic industry from the low-end to the high-end. The Group has successfully identified several industries such as electronic cigarette and has developed and delivered high value-added automation equipment that meet the demand of these industries. Concurrently, the Group has become a leading supplier to the fast-growing electronic cigarette manufacturing industry including providing heating coils and automation equipments to electronic cigarette makers. For the first half of 2014, the Group's automation business revenue increased from HKD1.5 million for the first half of 2013 to HKD13.4 million for the first half of 2014 and the gross profit margin of the automation business increased from 28.2% for the first half of 2013 to 39.3% for the first half of 2014.

FINANCIAL REVIEW

Revenue

For the first half of 2014, the Group reported revenue of HKD400.2 million, represents an increase of HKD143.6 million, or 55.9%, compared to that of HKD256.6 million for the first half of 2013. The increase in revenue in first half of 2014 was primarily attributable to the increase in the revenue of optical networking business and the new revenue source generated from the automation business.

Optical Networking Business

Revenue of optical networking business of HKD386.7 million was recorded in the first half of 2014, represents an increase of 51.6% as compared to that of HKD255.2 million in the first half of 2013. The increase in revenue in the first half of 2014 was primarily attributable to the demand for the optical networking products remained at a high level since the second half of 2013.

The Group has managed to gain further market share in the overseas market. Consequently, the revenue of optical networking business from the overseas market increased to HKD223.4 million for the first half of 2014, represents an increase of 79.2% as compared to that of HKD124.7 million in the first half of 2013 and the revenue of optical networking business from the overseas market represented 57.8% of its total optical networking revenue.

In the domestic market, China had launched 4G LTE license and started to set up 4G LTE network in December 2013 which driven the capital expenditures to grow. Consequently, the revenue of optical networking business from domestic market increased by 25.1% and recorded of HKD176.7 million in the first half of 2014, representing 42.2% of its total optical networking revenue.

Automation Business

For the first half of 2014, the Group's automation business division achieved revenue of HKD13.4 million, representing 3.4% of the Group's total revenues. The revenue of automation division was mainly contributed by selling heating coils to the electronic cigarette makers. The heating coils were produced by the automation equipments developed by the automation business division and recorded of HKD11.9 million while the revenue of HKD1.6 million was recorded by supplying customized automation equipments.

Gross Profit and Gross Profit Margin

Gross profit for the first half of 2014 was HKD134.6 million, representing an increase of HKD58.6 million, or 77.2%, from the gross profit of HKD76.0 million in the first half of 2013. The increase of gross profit was primarily due to increase in revenue and an increase in overall gross profit margin.

Gross profit as a percentage of total revenue, or gross profit margin, increased to 33.6% for the first half of 2014 as compared with 29.6% for the first half of 2013. Both of the gross profit margins of optical networking business and automation business increased to 33.4% and 39.3% respectively for the first half of 2014, from 29.6% and 28.2% respectively in the first half of 2013. The increase in gross profit margin of optical networking business was primarily due to the Group put much more effort in the cost control policy while the increase in gross profit margin of automation business was primarily due to economic of scales. Besides, the production volume for the first half of 2014 was much higher than the first half of 2013 which spreading over the fixed overheads, such as utilities and depreciation of fixed assets, with the large volume and help to improve the overall gross profit margin.

Other Gains

Other gains in the first half of 2014 increased by HKD0.3 million to HKD6.9 million, from HKD6.6 million in the first half of 2013. The increase in other gains was primarily due to the increase in government grants by HKD0.4 million, from HKD6.3 million in the first half of 2013 to HKD6.7 million in the first half of 2014.

Selling and Marketing Costs

Selling and marketing costs of HKD20.1 million in the first half of 2014 represents an increase of HKD6.7 million, or 50.3%, compared to HKD13.4 million in the first half of 2013. The increase in selling and marketing costs in the first half of 2014 was primarily attributable to the increase of the sales commission, salary costs and other selling related costs. However, selling and marketing costs as a percentage of revenue decreased to 5.0% in the first half of 2014 as compared to 5.2% in the first half of 2013. The decrease was mainly attributable to the increase in revenue was outweigh the increase in the overall selling and marketing costs.

Sales commissions for the first half of 2014 were HKD7.1 million. This represents an increase of HKD2.1 million, or 42.0% from HKD5.0 million in the first half of 2013. The increase was primarily attributable to the increase of overseas sales in the first half of 2014 compared with the first half of 2013 as the Group mainly incurs distributor commissions for overseas sales of optical networking business.

Salary in the first half of 2014 was HKD4.9 million which represents an increase of 40.0% compared with HKD3.5 million in the first half of 2013. This increase was primarily attributable to bolstering our efforts in hiring new staff for the sales team of new business and optical networking business which included adding US and Japan based sales and marketing team for optical networking business to penetrate existing customers as well as develop new customers.

For the other selling related expenses, such as transportation cost and usage of the low consumables, the amounts were HKD2.9 million and HKD1.2 million respectively, which represents an increase of HKD1 million and HKD1.1 million compared with the first half of 2013. These expenses were increased with the sales revenue during the period under review.

Research and Development Expenses

For the first half of 2014, R&D expenses increased by 23.9% to HKD56.2 million, from HKD45.3 million in the first half of 2013. The rise in R&D expenses was mainly due to the increase in salary cost, materials consumed and depreciation of fixed assets in the R&D projects. However, R&D expenses as a percentage of revenues decreased to 14.0% in the first half of 2014 as compared to 17.7% in first half of 2013. The decreased in R&D expenses as a percentage of revenues were mainly due to the increase in revenue was outweigh the increase in the overall R&D expenses.

For the first half of 2014, the salary was HKD22.9 million, an increase of 12.3% as compared to HKD20.4 million in the first half of 2013. The increase was primarily attributable to the increased in hiring of R&D engineers for both Shenzhen and USA R&D center.

Raw material consumed in the R&D projects amounted to HKD18.7 million in the first half of 2014, represents an increase of 22.2% from HKD15.3 million in the first half of 2013. Meanwhile, depreciation of fixed assets in the first half of 2014 amounted to HKD3.7 million, which was an increase of 27.6% given the corresponding figure of HKD2.9 million in the first half of 2013. The increase of raw materials and fixed assets used for R&D projects was primarily attributable to the additional costs used for finalizing the new products of optical networking business and developing new business.

Administrative Expenses

Administrative expenses in the first half of 2014 were HKD54.9 million, which was 9.1% higher, compared to HKD50.3 million in the first half of 2013. The increase in administrative expenses in the first half of 2014 was primarily attributable to the increase in staff salary and staff welfare even partial offseted by the decrease in the share option costs. However, administrative expenses as a percentage of revenues decreased to 13.7% in the first half of 2014 as compared to 19.6% in the first half of 2013. The decrease was mainly due to the increase in revenue was outweigh the net effect of increase in administrative expenses.

Salary in the first half of 2014 was HKD20.6 million and, which represents an increase of 19.1% compared with the HKD17.3 million in the first half of 2013. This increase was primarily attributable to hiring new staff for the new business.

Staff welfare in the first half of 2014 was HKD4.4 million, an increase of HKD3.2 million compared with HKD1.2 million in the first half of 2013. The increase was primarily attributable to providing of addition subsidy for staff meals in the canteen of new factory.

The share option cost in the first half of 2014 was HKD2.0 million, a decrease of 52.4% compared with HKD4.2 million in the first half of 2013. The decrease was primarily attributable to most of the share option costs related to the options granted to the administrative staff were already fully amortized in the prior years.

Finance Income

Net finance income for the first half of 2014 amounted to HKD3.5 million, was a decrease of HKD6.7 million from HKD10.2 million in the first half of 2013. Even the interest income for the first half of 2014 amounted to HKD7.1 million, was increased by HKD2.8 million from HKD4.3 million in the first half of 2013, which was primarily due to the interest income received from an additional fixed deposit during the period, the decrease in net finance income was due to the Group recorded a foreign exchange loss for the first half of 2014 instead of a foreign exchange gain for the first half of 2013. The foreign exchange loss of HKD3.7 million was primarily attributable to the depreciation of RMB in the first half of 2014 as the Group held most of our cash in Renminbi Yuan ("RMB") rather than the functional currency of the Group.

Share of Result of an Associate

Share of result of an associate of HKD2.9 million in the first half of 2014 represents the Group's share of loss of an associate which was brought by the associate's operating expenses. During the first half of 2014, the Group invested in an associate which engaged in R&D of chips. No revenue generated by the associate in the first half of 2014. No such investment was held in the first half of 2013.

Share of Result of a Joint Venture

Share of result of a joint venture ("JV") of HKD1.6 million in the first half of 2014, which represents an increase of HKD1 million compared with HKD0.6 million in the first half of 2013. The increase of Group's share of loss of a JV which was primarily attributable to the Group had shared the JV's operating expenses throughout six months in 2014 rather than shared its operating expenses for nearly a month in the first half of 2013 as the JV had been set up on 4 June 2013. No revenue generated by the JV in the first half of 2013 and 2014.

Profit Before Tax and Profit Before Tax Margin

Profit before tax of HKD9.3 million was recorded in the first half of 2014 while loss before tax of HKD16.8 million was recorded in the first half of 2013. The profit before tax for the first half of 2014 was primarily due to increase in revenue, gross profit and overall gross profit margin.

The Group recorded profit before tax in the first half of 2014 as compared to loss before tax in the first of 2013. Profit before tax as a percentage of total revenues, namely profit before tax margin, was 2.3% in the first half of 2014 which was primarily due to an increase in gross profit margin as well as a decrease in selling expenses, R&D expenses and administrative expenses as a percentage of revenues as described above.

Income Tax Expenses

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

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.

Income tax expenses in the first half of 2014 amounted to HKD1.5 million represents a drop of HKD4.5 million or 74.9% from the income tax expense of HKD6.0 million in the first half of 2013. The drop in income tax expenses was primarily due to the written down of deferred tax assets of HKD4.4 million for O-Net Communication (Shenzhen) Limited, a subsidiary located at the PRC during the first half of 2013. There were no deferred tax assets written down during the first half of 2014.

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

Profit attributable to equity holders of HKD7.8 million was recorded in the first half of 2014, while loss attributable to equity holders of HKD22.8 million was recorded in the first half of 2013. The profit attributable to equity holders was primarily due to increase in revenue, gross profit and overall gross profit margin.

The Group recorded profit attributable to equity holders in the first half of 2014 in compared to loss attributable to equity holders in the first of 2013. Profit attributable to equity holders as a percentage of total revenue, namely net profit margin was 1.9% in the first half of 2014 which was primarily due to the increase in gross profit margin as well as a decrease in selling expenses, R&D expenses and administrative expenses as a percentage of revenues as described above.

NON-GAAP FINANCIAL PERFORMANCE

NON-GAAP PROFIT ANALYSIS

Reconciliation of Non-GAAP Financial Measures

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

	For the period ended 30 June	
	2014	2013
	HKD'000	*HKD'000*
Adjustment to measure non-GAAP gross profit		
Gross Profit	**134,625**	75,979
Adjustment related to cost of sales		
Provision for excess and obsolete inventory	**3,474**	3,159
Non-GAAP Gross Profit	**138,099**	79,138
Adjustment to measure non-GAAP net profit		
Net profit/(loss)	**7,768**	(22,815)
Adjustment related to cost of sales		
Provision for excess and obsolete inventory	**3,474**	3,159
Adjustments to measure to operating expenses		
Share options granted to Directors, employees and sales distributors	**6,333**	6,871
Amortization of intangible assets	**372**	376
One-time expenses for the relocation of the new factory	**–**	1,755
Write-down of deferred tax assets	**–**	4,351
Non-GAAP Net Profit/(Loss)	**17,947**	(6,303)
Non-GAAP EPS		
– Basic	**0.03**	(0.01)
– Diluted	**0.03**	(0.01)
Gross Profit Margin	**33.6%**	29.6%
Non-GAAP Gross Profit Margin	**34.5%**	30.8%
Net Profit Margin	**1.9%**	N/A
Non-GAAP Net Profit Margin	**4.5%**	N/A

Non-GAAP net profit for the first half of 2014 was HKD17.9 million, or HKD0.03 per share, compared to non-GAAP net loss of HKD6.3 million, or HKD0.01 per share, reported for the first half of 2013. Non-GAAP results for the first half of 2014 exclude HKD3.5 million in provision for excess and obsolete inventory, HKD6.3 million in share options granted to Directors and employees expenses and HKD0.4 million in amortization of intangible assets. 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 and 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.

FUTURE PROSPECTS

Looking ahead, the Group will continue to allocate its resources effectively to improve its leading position in the selected industry. In order to better manage our position in the face of uncontrollable business environmental factors, the Group has been actively pursuing a strategy of innovation and diversification. For innovation, the Group has started to develop a series of high-growth next-generation active products for telecommunications and data-communications markets in 2012. And in diversification, the Group is proving successful with the introduction of the automation business in 2013 which will eventually improve the Group's overall profitability and drive the Group's overall business expansion in the coming years.

Optical Networking Business

With a series of high-growth next-generation active products for telecommunications and data-communications markets set for starting to launch gradually from the second half of 2014, the Group is confident that its optical networking business will continue to grow in the industry globally. The Group will not only sell the active products to its current clientele of equipment vendors but also have a new opportunity to supply intra-data center active products directly to the data center operators such as internet content providers and telecommunications and data-communications carriers. The Group believes that beginning from 2015 the active products recently launched or to be introduced in the future will gradually contribute revenue and will eventually take the Group's core business in optical networking back to a high-growth track. An advantage for the Group is that the telecommunications market continues to be driven by 100GbE demand while data centers continued to be a bright spot so that 40GbE products should also achieve good growth in the data-communications market. In addition, launching 4G LTE in China was a key factor leading the growth of the optical networking business in China. Driven by the optical network transmission upgrade to 100GbE, new cloud-based service opportunities and 4G LTE penetration, the Group's profitability, revenue and business scales will reach higher levels and market share will also be increased as its leading position in the optical networking industry further improves.

Automation Business

The Group is committed to develop its automation business where its capability for high precision automation forms a great competitive edge. Actually, the Group's automation business had started to contribute revenue and deliver products to customers in 2013. Now, the Group has become a leading supplier of solutions for the fast-growing electronic cigarette manufacturing industry. The Group has developed automation equipment for producing heating coils and has established supply relationships with several large electronic cigarette makers in China by supplying heating coils. It has further strengthened its leading position by supplying a newly developed automated E-liquid Filling & Assembly Machine to a leading overseas player in the electronic cigarette industry. In addition, the Group is developing another component, micro-controller and next-generation heating coil for the electronic cigarettes which expected to launch in forth quarter of 2014. Besides, the Group has started to develop machine vision solution in 2013 which included machine vision software and automatic visual inspection equipment that using the machine vision software to inspect mobile phone logo or shell coating defects and expected to be launched in the first quarter of 2015. To this end, the Group had further enhanced the R&D and sales and marketing team for the machine vision business during the reporting period. The Group believes the development of automation business and the growth in the electronic cigarette industry shall help to drive the Group's business scale to a higher level and aid its growth for many years to come.

New Business

In addition, leveraging the optical coating and processing technology platform, the Group has successfully designed a coating machine ("AR & AF Coating Machine") with a new coating process executing anti-reflective ("AR") and anti-fingerprint ("AF") coating simultaneously, a breakthrough for any professional coating application. An AR coating is an optical coating applied to the surface of glass or lenses which can commonly apply in the cover glass of smartphones and tablets to reduce reflection which eliminates glare and makes it possible to use the devices under bright lights and direct sunlight while an AF coating is a type of optical coating applied to reduce fingerprint marks. Traditionally, AR and AF coatings process is separately applied. The Group's AR & AF Coating Machine can perform the both coating processes simultaneously which saves cost and time particularly in such a massive production procedure for the cover glass of smartphones and tablets. The Group believes that the coating services business will gradually generate income in the second half of this year and will eventually improve the Group's overall profitability starting from next year.

In conclusion, the Group has invested, and will continue to invest in different business opportunities that are innovative and create substantial new value to its business. Efforts in past few years shall very soon start to bring new energy to the Group's top and bottom lines.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2014, the Company's issued share capital was approximately HKD7.1 million divided into 709,066,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,347.3 million (31 December 2013: HKD1,374.1 million). The Group had current assets of HKD875.8 million and current liabilities of HKD191.1 million and the current ratio was 4.6 times as at 30 June 2014 (31 December 2013: 4.6 times). The Group's net debt-to-equity ratio (calculated as total borrowing net of cash equivalents over shareholders' equity) and gearing ratio (calculated as total borrowings over shareholders' equity) was not applicable as at 30 June 2014 and 31 December 2013 since the Group did not have any borrowing.

As of 30 June 2014, the Group had cash and cash equivalents of approximately HKD197.6 million (31 December 2013: HKD281.8 million). The significant decrease was due to the repurchase of the shares, investment in associates, deposit to third parties, deposit to trustee of share award scheme and capital expenditure on property, plant and equipment during the period. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

During the period ended 30 June 2014, the Company repurchased and cancelled its own shares at a total consideration of HKD34.5 million by its working capital.

PLEDGE ON GROUP ASSETS

As at 30 June 2014, HKD15.5 million bank deposits were pledged as guarantee for payables due to contractor and suppliers for the construction of the new plants in Shenzhen. The Group has also pledged bank deposits of HKD2.5 million as guarantee for bills payables due to raw material suppliers.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2014, the Group had committed to the expansion of existing plants and building of new plants to enhance its production capacity. As at 30 June 2014, the Group had contractual capital commitments of approximately HKD93.7 million (31 December 2013: HKD67.4 million). As of 30 June 2014, 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 2014, 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 HKD35.5 million (30 June 2013: HKD98.5 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

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

EMPLOYEE BENEFIT

As at 30 June 2014, the Group had a total of 2,198 employees (30 June 2013: 1,889). The Group's staff costs (including Directors' fees) amounted to HKD127.4 million (30 June 2013: HKD102.1 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 2014, options in aggregate of 1,870,000 were granted to 1 Director and 18 employees of the Group (31 December 2013: options in aggregate of 19,550,000 were granted to 41 employees of the Group). The Directors believe that the compensation packages offered by the Group to staff member are competitive in comparison with market standards and practices.

The Company adopted a restricted share award scheme ("Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. For the first half of 2014, 16,055,000 restricted shares were purchased by the trustee from the market for the purpose of the Award Scheme.

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2014 (30 June 2013: 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 2014.

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

As at 30 June 2014, 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.

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 2014 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2014, the Company repurchased 16,383,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HKD1.74 to HKD2.50 per share on The Stock Exchange of Hong Kong Limited (the "SEHK"). Details of the repurchases are as follows:

Month/Year	**Number of shares repurchased**	**Purchase price per share**		**Aggregate purchase consideration (excluding expenses)**
		Highest	**Lowest**	
		HKD	*HKD*	*HKD*
January 2014	288,000	1.79	1.74	507,870
March 2014	8,338,000	2.50	2.10	19,462,720
April 2014	7,757,000	2.40	2.14	17,525,740
	16,383,000			37,496,330

During the period, the Company, through the trustee of the Award Scheme, purchased from the market 16,055,000 shares for the purpose of the Award Scheme.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rule Governing the Listing of Securities on the SEHK (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2014.

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 2014.

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

During the six months ended 30 June 2014, the Company was in compliance with all 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.

Save as those mentioned above, in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the six months ended 30 June 2014.

AUDIT COMMITTEE

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2014 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, 20 August 2014

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.