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 2011

RESULTS

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 2011 together with the comparative figures.

The unaudited interim condensed consolidated financial statements have not been audited or reviewed by the Company's auditors, 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)

		Six months ended 30 June	
		2011	2010
		(Unaudited)	(Audited)
	Note	***HKD'000***	*HKD'000*
Revenue		**304,998**	296,750
Cost of sales		**(164,282)**	(145,971)
Gross profit		**140,716**	150,779
Other gains – net		**4,124**	416
Selling and marketing costs		**(14,191)**	(15,316)
Research and development expenses		**(25,677)**	(14,201)
Administrative expenses		**(50,684)**	(24,405)
Operating profit		**54,288**	97,273
Finance income	5	**12,158**	33
Finance costs	5	**(26)**	(4,358)
Finance income/(costs) – net	5	**12,132**	(4,325)

	Note	Six months ended 30 June 2011 (Unaudited) HKD'000	2010 (Audited) HKD'000
Profit before income tax	6	**66,420**	92,948
Income tax expenses	7	**(16,975)**	(11,307)
Profit for the period		**49,445**	81,641
Profit attributable to:			
Equity holders of the Company		**49,445**	81,641
Earnings per share for profit attributable to equity holders of the Company ***(HKD per share)***			
– Basic	9	**0.06**	0.13
– Diluted	9	**0.06**	0.13

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note	**As at 30 June 2011 (Unaudited)** ***HKD'000***	As at 31 December 2010 (Audited) *HKD'000*
ASSETS			
Non-current assets			
Land use right		**29,115**	28,765
Property, plant and equipment		**194,412**	82,260
Intangible assets		**622**	710
Deferred income tax assets		**5,235**	2,911
		229,384	114,646
Current assets			
Inventories		**147,137**	114,577
Trade and other receivables	10	**259,631**	270,926
Pledged bank deposits		**68,499**	26,971
Term deposits with initial term of over three months		**267,935**	382,877
Cash and cash equivalents		**595,247**	507,812
		1,338,449	1,303,163
Total assets		**1,567,833**	1,417,809
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital		**8,261**	8,331
Reserves		**1,307,979**	1,241,011
Total equity		**1,316,240**	1,249,342

	Note	As at 30 June 2011 (Unaudited) HKD'000	As at 31 December 2010 (Audited) HKD'000
LIABILITIES			
Current liabilities			
Bank borrowings		**39,812**	–
Trade and other payables	11	**190,265**	143,540
Current income tax liabilities		**21,516**	24,927
		251,593	168,467
Total liabilities		**251,593**	168,467
Total equity and liabilities		**1,567,833**	1,417,809
Net current assets		**1,086,856**	1,134,696
Total assets less current liabilities		**1,316,240**	1,249,342

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Audited)
	HKD'000	*HKD'000*
Profit for the period	**49,445**	81,641
Other comprehensive income		
Currency translation differences	**14,324**	3,197
Total comprehensive income for the period	**63,769**	84,838
Total comprehensive income attributable to:		
Equity holders of the Company	**63,769**	84,838

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND GROUP REORGANIZATION

(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 "Stock Exchange") 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 HK dollars, unless otherwise stated. This interim condensed consolidated financial statements were approved for issue on 30 August 2011.

These interim condensed consolidated financial statements are unaudited 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 PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2011 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 2010, 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 2010, as described in those annual financial statements, expect 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 2011. 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 chief operating decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Due to the fact that the Group continued to diversify its product ranges, starting from the second half of 2010, the senior executive management team no longer review and assess the performance of each individual product or a particular category of products. Instead, they assess performance and allocate resources according to the total revenues derived from each customer. Gross/net profits and costs are managed in aggregate on entity level, not on individual product or customer level. As a result of such a change, the CODM considers that the Group has only one single operating segment and no segment information was disclosed for the six months ended 30 June 2011. Applicable changes have been made for the 2010 comparative figures.

All the reported revenues from sales of goods were made to external customers for the six months ended 30 June 2011 and 2010.

(a) Revenue from external customers in the PRC, Europe, North America and other Asia countries excluding the PRC is as follows:

	For the six months ended 30 June	
	2011	2010
	HKD'000	*HKD'000*
The PRC	**166,366**	137,860
Europe	**68,621**	84,143
North America	**21,083**	22,953
Other Asia countries excluding the PRC	**48,928**	51,794
	304,998	296,750

(b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2011 and 31 December 2010 are as follows:

	As at	
	30 June 2011	31 December 2010
	HKD'000	*HKD'000*
The PRC	**181,932**	111,575
Hong Kong	**159**	160
	182,091	111,735

5. FINANCE INCOME/(COSTS) – NET

	For the six months ended 30 June	
	2011	2010
	HKD'000	*HKD'000*
Finance income		
– Interest income derived from bank deposits	**7,558**	33
– Net exchange gain	**4,600**	–
Finance costs		
– Interest expenses on bank borrowings	**(26)**	–
– Net exchange loss	**–**	(4,358)
Finance income/(costs) – net	**12,132**	(4,325)

6. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2011	2010
	HKD'000	*HKD'000*
Staff costs – excluding share options granted to directors and employees	**66,432**	48,380
Share option expenses		
– For options granted to sales distributors	**–**	363
– For options granted to directors and employees	**21,213**	2,330
Raw materials consumed	**133,150**	130,713
Changes in inventories of finished goods and work in progress	**(7,596)**	(11,070)
Depreciation	**11,049**	5,672
Amortisation	**415**	375
(Write back of)/provision for impairment provision for doubtful receivables	**(33)**	440
Write back of inventories provision	**–**	(1,998)

7. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2011	2010
	HKD'000	*HKD'000*
Current income tax		
– Hong Kong profits tax *(b)*		
– PRC corporate income tax *(c)*	**–**	–
	19,235	11,108
Total current income tax	**19,235**	11,108
Deferred income tax	**(2,260)**	199
Income tax expenses	**16,975**	11,307

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

(b) Hong Kong profits tax

The applicable tax rate for Hong Kong profits is 16.5%. No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the six months ended 30 June 2011.

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

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

O-Net Shenzhen was established in the Shenzhen Special Economic Zone. It was entitled to exemption from the PRC EIT for the two years commencing from their respective first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from the enacted EIT rate for the next three years (the "5-Year Tax Concession").

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.

After promulgation of the New PRC EIT Law, the "5-Year Tax Concession" enjoyed by O-Net Shenzhen could be continued to be applied. As the first profit making year of O-Net Shenzhen after offsetting of cumulative carry-forward losses is 2006, the enacted tax rate applicable to O-Net Shenzhen is 11% for 2010 (being 50% of the enacted EIT rate for 2010).

In addition, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It would be entitled to a concessionary EIT tax rate of 15% for a period of 3 years from 2008 to 2010. Given the fact that the applicable EIT tax rate under the 5-Year Tax Concession is more preferential and beneficial to O-Net Shenzhen, the enacted tax rate applicable to O-Net Shenzhen for 2010 was determined based on the 5-Year Tax Concession, as described in the preceding paragraph.

As described above, the enacted tax rate applicable to O-Net Shenzhen is 24% for 2011.

8. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2011 (30 June 2010: 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	
	2011	2010
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**49,445**	81,641
Weight average number of ordinary shares in issue (thousands)	**832,832**	647,089
Basic EPS (HKD per share)	**0.06**	0.13

The weighted average number of ordinary shares in issue during the six months ended 30 June 2010 used in the basic earnings per share calculation is determined on the assumption that the 579,805,000 shares issued upon the capitalization issue and 10,000 shares issued under the Reorganization (Note 1) had been in issue since the beginning of the periods presented (1 January 2010).

(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	
	2011	2010
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**49,445**	81,641
Weighted average number of ordinary shares in issue (thousands shares)	**832,832**	647,089
Adjustments for share options (thousands shares)	**4,098**	596
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**836,930**	647,685
Diluted EPS (HKD per share)	**0.06**	0.13

10. TRADE AND OTHER RECEIVABLES

	As at	
	30 June	31 December
	2011	2010
	HKD'000	*HKD'000*
Trade receivables (a)	**203,570**	222,093
Less: provision for impairment of receivables	**(1,774)**	(1,770)
Trade receivables – net	**201,796**	220,323
Bills receivables (b)	**44,839**	39,902
Prepayments	**2,103**	2,732
Interest receivables	**8,361**	3,984
Other receivables	**2,532**	3,985
	259,631	270,926

(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
	2011	2010
	HKD'000	*HKD'000*
Within 30 days	**81,191**	93,426
31 to 60 days	**36,904**	58,083
61 to 90 days	**36,675**	27,014
91 to 180 days	**37,485**	32,371
181 to 365 days	**8,356**	9,179
Over 365 days	**2,959**	2,020
	203,570	222,093

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

Bills receivables	As at	
	30 June	31 December
	2011	2010
	HKD'000	*HKD'000*
Within 30 days	**7,577**	10,548
31 to 90 days	**17,971**	8,656
91 to 180 days	**19,291**	20,698
	44,839	39,902

11. TRADE AND OTHER PAYABLES

	As at 30 June 2011 *HKD'000*	As at 31 December 2010 *HKD'000*
Trade payables (a)	**91,028**	118,208
Construction costs payables	**50,586**	94
Bills payables (b)	**27,559**	–
Accrued expenses	**10,279**	10,604
Payroll payable	**9,808**	9,021
Other payables	**341**	223
Advances from customers	**664**	563
Other taxes payable	**–**	4,827
	190,265	143,540

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

	As at 30 June 2011 *HKD'000*	As at 31 December 2010 *HKD'000*
Within 30 days	**30,058**	45,306
31 days to 60 days	**14,113**	21,692
61 days to 180 days	**42,877**	42,503
181 days to 365 days	**3,442**	5,101
Over 365 days	**538**	3,606
	91,028	118,208

(b) Bills payables are with maturity dates between 120 and 180 days. The aging analysis of bills payables is as follows:

	As at 30 June 2011 *HKD'000*	As at 31 December 2010 *HKD'000*
Within 120 days	**11,333**	–
121 to 150 days	**9,512**	–
151 to 180 days	**6,714**	–
	27,559	–

12. SUBSEQUENT EVENT

Save for the listed securities repurchased on June 2011, the Company further repurchased and cancelled 7,805,000 its listed securities at a total consideration of HKD21,396,000 in July 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has focused on the research, development, manufacture and sale of passive optical products which include sub-components, components, modules and sub-systems mainly used in broadband and fiber optic network 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. During the first half of 2011, the Group's revenues recorded slight growth.

BUSINESS REVIEW

During the reporting period, the Group saw its top-line growth weakened significantly compared to historical level, which the Group believes are primarily due to inventory glut at certain customers. General economic environment has also contributed to the weak demand for optical networking equipment. Both North American and European markets are subject to the uncertain impact of the sovereign debt crisis.

During the first quarter of 2011, the Group was able to excel in its performance in the industry with its product edge in the market together with the global telecommunication operators expanded their capital expenditure. The Group continued to achieve solid growth. According to Ovum's report, the Group continued to gain market share sequentially in the first quarter of 2011. However, the revenues declined during the second quarter of 2011. The sequential decline in revenues was primarily a result of soft demand from our customers when the global telecom equipment makers started to adjust their inventory level. As a result, the Group's revenues recorded slight growth for the reporting period.

FINANCIAL REVIEW

Revenue

For the first half of 2011, the Group reported revenues of HKD305.0 million, representing a 2.8% growth over the same period of last year. The increase in revenues for the reporting period is primarily attributable to growth of demand from domestic customers offsetting the drop of demand from overseas customers.

In the domestic market, as the year marked the beginning of the nation's 12th Five-Year Plan, the telecommunications network carriers in China showed varying emphases in their investments during the first half of the year, particularly certain carriers were more focused on the FTTx optical network systems. Moreover, two new customers in China had successfully completed qualification. Despite the industrywide inventory correction, the Group was able to achieve a year-on-year growth by 20.7%, representing HKD166.4 million of its domestic revenues and accounting for 54.6% of its total revenues.

In the overseas market, overall capital expenditure by telecommunications network carriers varied from countries to countries, although there were showed that investments were back on a growth track, particularly focused on the construction of broadband and fiber optic networks, the Group's business had faced more challenges due to the industry-wide inventory correction. Consequently, revenues from the overseas declined by 12.8% over the same period of last year to HKD138.6 million, accounting for 45.4% of its total revenues.

Gross Profit and Gross Profit Margin

For the first half of 2011, the Group recorded gross profit of HKD140.7 million, a decrease of HKD10.1 million, or 6.7%, from gross profit of HKD150.8 million for the same period of last year. The decrease of gross profit was primarily due to the gross profit margin suffered negative growth.

Gross profit as a percentage of total revenues, or gross profit margin, decreased to 46.1% for the six months ended 30 June 2011 as compared to 50.8% for the six months ended 30 June 2010. During the reporting period, although the revenues had a slight improvement, the gross profit margin suffered negative growth when compared with the same period of last year. Even the Group continues to launch more new products including next generation products, the decrease in gross profit margin was primarily due to a higher mix of relatively lower margin legacy products, particularly the products related to the FTTx optical network systems.

Other Gains

For the first half of 2011, other gains were HKD4.1 million, an increase of HKD3.7 million, or 891.4%, from other gains of HKD0.4 million for the same period of last year. Such increase is primarily attributable to the government grants of HKD3.7 million during the reporting period.

Selling and Marketing Costs

For the first half of 2011, selling and marketing costs were HKD14.2 million, a decrease of HKD1.1 million, or 7.4%, from selling and marketing costs of HKD15.3 million for the same period of last year. The decrease in selling and marketing costs was primarily due to the decrease in sales commission we paid to our sales distributors around the world which is partly offsetted by the increase in the overall sales personnel staff cost and freight charges. Selling and marketing costs as a percentage of revenues decreased to 4.7% for the six months ended 30 June 2011 as compared to 5.2% for the six months ended 30 June 2010. The decrease in selling and marketing costs as a percentage of revenues was primarily due to the lower mix of revenues generated from overseas customers.

For the first half of 2011, sales commissions were HKD6.4 million, a decrease of 29.9%, from HKD9.2 million for the same period of last year. The decrease was primarily due to the fact that our overseas revenues for the six months ended 30 June 2011 decreased by HKD20.3 million, or 12.8% for the same period of last year. We generally do not incur distributor commission for sales in China, the effective commission rate, which is the result of total commissions paid by the company divided by total overseas revenues, was 4.6% for the six months ended 30 June 2011 and 5.8% for the six months ended 30 June 2010. The decrease in effective commission rate was primarily due to we pay lower commission on the legacy products sold which contributed higher sales mix during the reporting period.

For the first half of 2011, the salary and share options cost were HKD2.1 million and HKD1.4 million, an increase of 20.9% and 162.5% as compared with the same period of last year. The increase was primarily attributable to the rising wages and additional share options granted to our sales personnel.

For the first half of 2011, freight expenses were HKD2.2 million, an increase of 21.4% from HKD1.8 million for the same period of last year. The increase was primarily attributable to the increasing cost of transportation.

Research and Development Expenses

For the first half of 2011, research and development ("R&D") expenses were HKD25.7 million, an increase of 80.8% from HKD14.2 million for the same period of last year. Meanwhile, R&D expenses as a percentage of revenues increased to 8.4% for the six months ended 30 June 2011 as compared to 4.8% for the six months ended 30 June 2010. The increase in R&D expenses and its percentage of revenues were primarily attributable to stepping up the investments for the new products R&D projects, including purchasing raw materials and equipments for the related R&D projects, hiring R&D engineers and increasing the overall R&D engineers cost.

For the first half of 2011, raw material costs used by the R&D projects were HKD11.8 million, an increase of 70.3% from HKD6.9 million for the same period of last year. Meanwhile, depreciation of fixed assets was HKD1.0 million, an increase of 94.1% from HKD0.5 million for the same period of last year. The increase of raw materials and fixed assets used for the R&D projects was primarily attributable to the additional new products R&D projects the Group undertook during the reporting period, particularly on the 40G and 100G areas.

For the first half of 2011, the salary and share options cost were HKD7.9 million and HKD3.2 million, an increase of 46.3% and 568.5% in compared with the same period of last year. The increase was primarily attributable to the increase in hiring R&D engineers and raised their wages as well as the additional share options granted to our R&D engineers.

Administrative Expenses

For the first half of 2011, administrative expenses were HKD50.7 million, an increase of 107.7% from HKD24.4 million for same period of last year. Administrative expenses as a percentage of revenues increased to 16.6% for the six months ended 30 June 2011 as compared to 8.2% for the six months ended 30 June 2010. The increase in administrative expenses and its percentage of revenue were primarily attributable to the additional administrative expenses as a public company listing on The Stock Exchange of Hong Kong Limited (the "SEHK") and the Group increased its operation scale.

For the first half of 2011, the salary and share options cost were HKD17.3 million and HKD16.7 million, an increase of 40.0% and 884.1% compared with the same period of last year. The increase was primarily attributable to the increase in hiring of new staffs as the Group increased its operation scale and raised their wages as well as the additional share options granted to our staffs.

For the first half of 2011, rental expenses and utilities expenses were HKD2.4 million, HKD2.3 million, an increase of 34.3% and 28.4% compared with the same period of last year. The increase was primarily attributable to the addition of office and staff quarters for the additional staffs as the Group increased its operation scale.

For the first half of 2011, other administrative expenses were HKD14.4 million, an increase of 68.3% from HKD8.6 million for the period last year. The increase was primarily attributable to the additional professional fees and management expenses as a public company listed on the SEHK.

Finance Income

For the first half of 2011, net finance income were HKD12.1 million, an increase of HKD16.5 million, from net finance cost HKD4.3 million for the same period of last year. The net finance income was due to increase in the the bank interest income and the foreign exchange gain. The increase in bank interest income of HKD7.6 million was primarily attributable to the net proceeds from IPO and the share placement on 15 November 2010 (the "Placement") being deposited as term deposits during the reporting period. The increase in exchange gain of HKD4.6 million was primarily attributable to most of the net proceeds from IPO and Placement were held in RMB rather than HKD which is the functional currency of the Company.

Profit before Tax and Profit before Tax Margin

Profit before tax decreased by HKD26.5 million from HKD92.9 million for the six months ended 30 June 2010 to HKD66.4 million for the six months ended 30 June 2011. Profit before tax as a percentage of total revenues, namely profit before tax margin, decreased from 31.3% for the six months ended 30 June 2010 to 21.8% for the six months ended 30 June 2011. The decrease in profit before tax and profit before tax margin for the reporting period was primarily due to decrease in gross profit margin and increase in operating expenses as described above.

Income Tax Expenses

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

The applicable tax rate for Hong Kong profits is 16.5%. No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the six months ended 30 June 2011.

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

Income tax expenses for the six months ended 30 June 2011 were HKD17.0 million, an increase of HKD5.7 million, or 50.1% from an income tax expense of HKD11.3 million for the same period of last year. The increase in income tax expenses was primarily attributable to an increase of the enacted tax rate of the Group's subsidiary located in the PRC, O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen"), from 11% in 2010 to 24% in 2011. In fact, O-Net Shenzhen had been qualified by the relevant authorities as High and New Technology Enterprise in the PRC and was entitled to a concessionary EIT tax rate of 15% in 2008 for a period of 3 years. As the qualification expired on 31 December 2010, O-Net Shenzhen has applied for the qualification as High and New Technology Enterprise during the reporting period. O-Net Shenzhen will be entitled to the concessionary EIT tax rate of 15% in 2011 if it can be qualified again as High and New Technology Enterprise.

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

Profit attributable to equity holders decreased by HKD32.2 million from HKD81.6 million for the six months ended 30 June 2010 to HKD49.4 million for the six months ended 30 June 2011. Profit attributable to equity holders as a percentage of total revenues, namely net profit margin, decreased from 27.5% for the six months ended 30 June 2010 to 16.2% for the six months ended 30 June 2011. The decrease in profit attributable to equity holders and net profit margin for the six months ended 30 June 2011 was primarily due to decrease in gross profit margin and increase in operating expenses and income tax expenses as described above.

Reconciliation of Non-GAAP Financial Measures

The Group believes that providing non-GAAP financial measures are helpful for investors comparing our financial performance with most of the comparable companies listed on NASDAQ in the United States which also providing 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.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

	For the six months ended 30 June	
	2011	2010
	HKD'000	*HKD'000*
Adjustments to measure non-GAAP gross profit		
Gross profit	**140,716**	150,779
Adjustments related to cost of sales:		
Reversal of write-down of inventories	**–**	(1,998)
Non-GAAP Gross profit	**140,716**	148,781
Adjustments to measure non-GAAP net profit		
Net profit	**49,445**	81,641
Adjustments related to cost of sales:		
Reversal of write-down of inventories	**–**	(1,998)
	49,445	79,643
Adjustments to measure to operating expenses:		
Share options granted to directors, employees and sales distributors	**21,213**	2,693
Amortization of intangible assets	**415**	375
Non-GAAP Net Profit	**71,073**	82,711
EPS		
– Basic	**0.09**	0.13
– Diluted	**0.09**	0.13
Gross Profit Margin	**46.1%**	50.8%
Non-GAAP Gross Profit Margin	**46.1%**	50.1%
Net Profit Margin	**16.2%**	27.5%
Non-GAAP Net Profit Margin	**23.3%**	27.9%

Non-GAAP Profit Analysis

Non-GAAP net income for the six months ended 30 June 2011 was HKD71.0 million, or HKD0.09 per share, compared to non-GAAP net income of HKD82.7 million, or HKD0.13 per share, reported for the six months ended 30 June 2010. Non-GAAP results for the six months ended 30 June 2011 exclude HKD21.2 million in share options granted to directors and employees expenses and HKD0.4 million in amortization of intangible assets. Non-GAAP results for the six months ended 30 June 2010 exclude HKD2.0 million in reversal of excess and obsolete inventory, HKD2.7 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 remains committed to advance our leadership in technology, and the development of in-house intellectual property. The expansion of R&D team will continue to enhance our R&D capabilities in respect of launching new products as well as improvement of production efficiency. During the reporting period, the Group's major R&D projects undertaken included improvement of production efficiency, expansion of technology platforms and introduction of higher margin new products.

Comprehensive Development of New Products

The Group continued to invest in the R&D of new products, and it has successfully increased the number of suitable R&D and quality control experts in the industry in order to keep abreast of the latest information and technology in the world for maintaining its leading position in the industry. The Group has increased investment in technology which is mainly for accelerating the development of new products, standardizing the technology basic administration, enhancing the improvement of technology and optimizing the structure of existing products. The Group actively expanded the product structure, enriched product categories and gradually developed new products. As a result, the Group launched 148 new products in different product categories during the reporting period.

Future Prospects

The year ending 31 December 2011 will be a challenging year to our Group. The global economy is confronted with a number of uncertainties. However, the Group is optimistic about the second half of 2011 and its future. Domestic carriers are expected to expedite their capital expenditure in the second half of the year while broadband and fiber optic network construction and upgrade development will remain the focuses of the overseas market. The Group will continue to be on the alert and to pursue a prudent investment strategy in developing its existing and new businesses.

The Group has been actively seeking suitable investment opportunities for business diversification. Given that our innovation optical technology, there are great potential for adopting on other types of industries. With the experience and track record in managing high-tech businesses of the members of the Board, the Group shall continue to explore suitable investment opportunities in the technology driven sector so as to expand the scope of the Group's business and enhance shareholders' value.

Group's Liquidity, Financial Resources and Capital Structure

As at 30 June 2011, the Company's issued share capital was HKD8,261,252.4 divided into 826,125,240 shares of HKD0.01 each and the total equity of the Group was approximately HKD1,316.2 million (31 December 2010: HKD1,249.3 million). The Group has current assets of HKD1,338.4 million and current liabilities of HKD251.6 million and the current ratio was 5.3 times (31 December 2010: 7.7 times). The Group's net debt-to-equity ratio (calculated as total borrowings net of cash equivalents over shareholders' equity) was not applicable as at 30 June 2011 since the Group's cash equivalents exceeded the total borrowings. The gearing ratio (calculated as total borrowing over shareholders' equity) was 0.03 (31 December 2010: not applicable since the Group did not have any borrowing). As of 30 June 2011, the Group had cash and cash equivalents of approximately HKD595.2 million (31 December 2010: 507.8 million). The significant increase was attributable to the proceeds transferred from term deposits which were expired 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 balance to meet its commitment and working capital requirement in the coming financial year.

Pledge on Group Assets

As at 30 June 2011, HKD27.6 million bank deposits was pledged as performance guarantee for contractor and suppliers for the construction of the new facilities in Shenzhen. The Group also had a bank deposit of HKD40.9 million pledged as collateral for a secured bank loan.

Capital Commitments and Contingent Liabilities

During the reporting period, the Group was committed to expansion of existing facilities and building of new facilities to enhance its production capacity. As at 30 June 2011, the Group has contractual capital commitments of approximately HKD119.4 million. As of 30 June 2011, 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

During the six months ended 30 June 2011, 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 HKD120.2 million (30 June 2010: HKD25.9 million).

Exposure to Fluctuations in Exchange Rates and Related Hedge

The costs and expenses of the Group are predominantly in RMB, whereas the Group's revenues are mainly in US dollars and RMB. As such, the Group faces foreign exchange and conversion risks primarily through sales that are denominated in currencies other than RMB. Fluctuation in the exchange rate between RMB and the US dollar may adversely affect our business, financial condition and results of operations.

The Group currently does not have a foreign currency hedging policy. However, management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Save for the net proceeds from IPO, the Group will also monitor and maintain a US dollar cash balance in order to minimize the need for unnecessary foreign exchange conversion which may result in exchange loss. For further details, please refer to the section headed "Risk Factors – Fluctuation in the value of the Renminbi could expose us to foreign currency risks and may have an adverse effect on our financial position" in the prospectus of the Company dated 19 April 2010 (the "Prospectus").

The reporting currency of the Group is presented in Hong Kong dollars, which is the Group's presentation currency, 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 Company will pay dividends in Hong Kong dollars if dividends are declared.

Employee Benefit

As at 30 June 2011, the Group had a total of 2,021 employees (30 June 2010: 2,154). The Group's staff cost (including Directors' fees) amounted to HKD87.6 million (30 June 2010: HKD50.7 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice.

The Group have provided to the employees with 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 directors, employee, consultant, professional, customer, supplier, agent, partner or adviser of 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. During the six months ended 30 June 2011, options in aggregate of 16,868,000 were granted to 2 Directors and 315 employees of the Group (30 June 2010: options in aggregate of 30,648,000 were granted to 5 Directors and 315 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 2011 (30 June 2010: 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 2011.

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

As at 30 June 2011, 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 repurchases disclosed at 'Purchase, Sale, or Redemption of the Company's Listed Securities' under 'Other Information' and the 'Future Plans and Use of Proceeds' as set out in the Prospectus, there has been no other important event affecting the Group since 30 June 2011.

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 2011, approximately HKD258.3 million of the proceeds so raised was used, and the proceeds of approximately HKD254.5 million remain unused.

Details of the used proceeds of approximately HKD258.3 million are as follows:

	Net IPO proceeds (HKD million)		
	Available	**Utilised**	**Unutilised**
New production facilities	200.0	82.5	117.5
Production line and research & development expansion	40	40	–
Repayment to Shenzhen Kaifa for rent and operating expenses paid on behalf of the Group	34	34	–
Working Capital and Others including M&A	238.8	101.8	137.0
Total	512.8	258.3	254.5

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.

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 during the six month ended 30 June 2011 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

During the six months ended 30 June 2011, the Company repurchased 6,970,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD2.40 to HKD2.75 per share on the SEHK. The repurchased shares was cancelled subsequently in July 2011. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share Highest	Lowest	Aggregate purchase consideration
		HKD	*HKD*	*HKD*
June 2011	6,970,000	2.75	2.40	18,084,000
Total	6,970,000			18,084,000

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.

On July 2011, the Company further repurchased and cancelled 7,805,000 its listed securities at a total consideration of HKD21,396,000.

Model Code for Securities Transactions by Directors

The Company has adopted the 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 to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

Code on Corporate Governance Practices

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

During the six months ended 30 June 2011, the Company was in compliance with code provisions set out in the CG code except for the deviations from code provision A.2.1 which is explained below.

Code provision A.2.1 of the CG Code provides that the responsibilities between the chairman ("Chairman") and chief executive officer ("CEO") should be divided. The Company has a CEO, Mr. Na Qinglin and he currently also performs as a Co-Chairman of the Company. The Board believes that vesting the roles of both Co-Chairman and CEO in the same person has the benefit of ensuring consistent leadership within the Company and its subsidiaries (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 and 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 2011.

Audit Committee

The Company established an audit committee (the "Audit Committee") on 9 April 2010 with written terms of reference in compliance with the CG Code, and currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei, Mr. Bai Xiaoshu and Mr. Deng Xinping. The Audit Committee is chaired by Mr. Ong Chor 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 2011 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

Hong Kong, 30 August 2011

As at the date of this announcement, the executive Directors are Mr. Na Qinglin and Mr. Xue Yahong, 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. Bai Xiaoshu and Mr. Ong Chor Wei.