

# O-Net

Technologies (Group) Limited

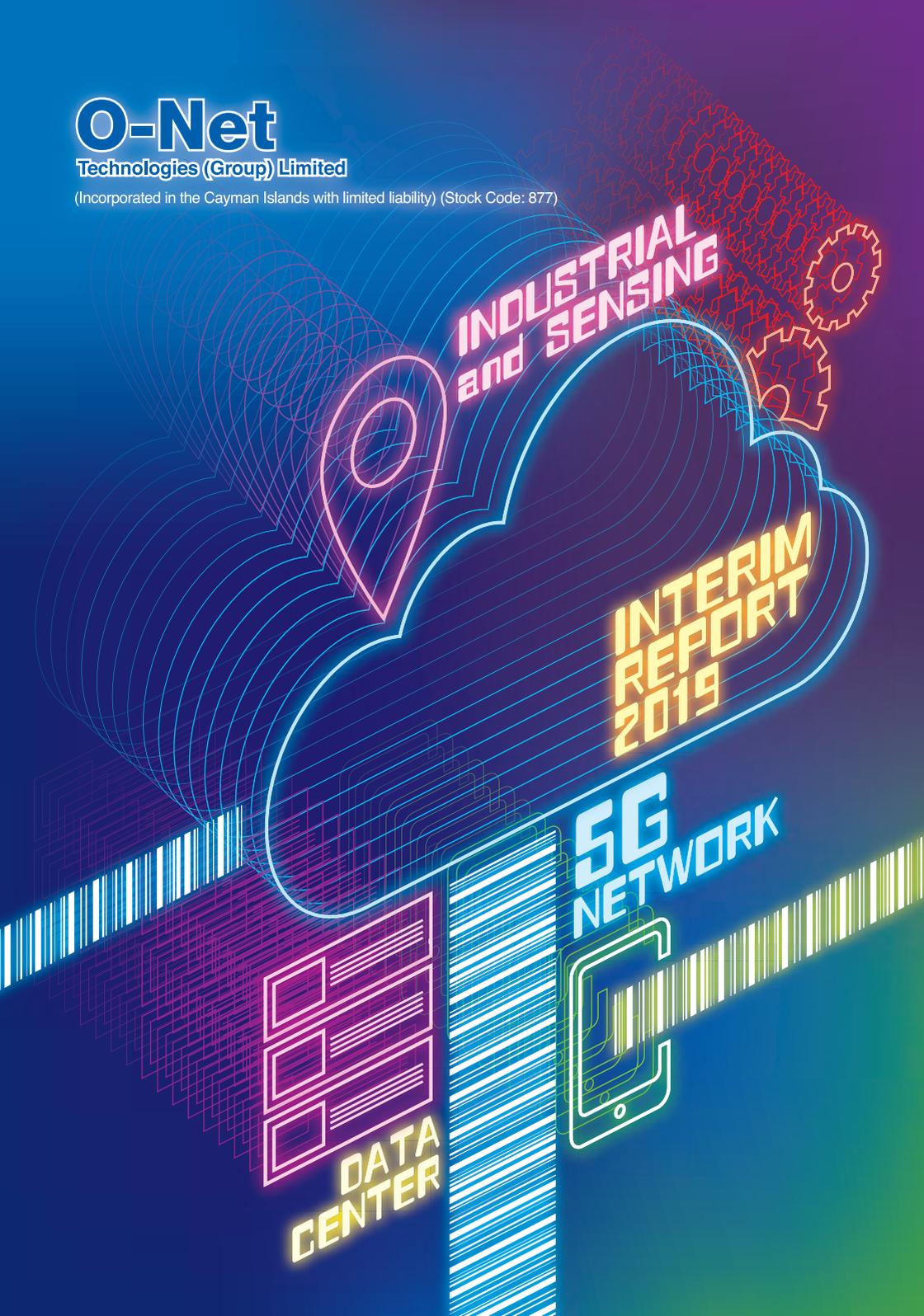
(Incorporated in the Cayman Islands with limited liability) (Stock Code: 877)

INDUSTRIAL  
and SENSING

INTERIM  
REPORT  
2019

5G  
NETWORK

DATA  
CENTER



## TECHNOLOGY PIONEER

O-Net, as a high-technology leader, is a leading supplier of optical networking products to the global optical telecommunications and data-communications markets. To further strengthen the Group's leadership in the global technology industry, O-Net, along with 3SP and ITF, secures the stable supply of advanced laser chips and optical components in order to widen the Group's 5G product range and improve its technologies through vertical integration. Riding on the Group's core optical networking technology platform, it has diversified from its core business to new smart manufacturing applications, in which the Group has invested resources on machine vision systems and sensing products for Industry 4.0 as well as ultrareliable fiber-optic components and multikilowatt optical components for fiber laser market, and has re-positioned its strategic focus from a sole telecom passive component supplier to a high technology leader with advanced products and solutions for cloud data centers, automation, sensing and industrial laser, as well as ADAS and smartphone markets with an aim to become a leading high-tech company.

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## CORPORATE INFORMATION

### COMPANY NAME

O-Net Technologies (Group) Limited

### FINANCIAL YEAR END

31 December

### PLACE OF INCORPORATION

Cayman Islands

### REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

### HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

35 Cuijing Road  
Pingshan New District  
Shenzhen  
China  
Postal Code: 518118

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1608  
West Tower, Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

### COMPANY'S WEBSITE

[www.o-netcom.com](http://www.o-netcom.com)

### BOARD OF DIRECTORS

*Executive Director*

Mr. Na Qinglin  
*(Chairman of the Board and  
Chief Executive Officer)*

*Non-Executive Directors*

Mr. Chen Zhujiang  
Mr. Huang Bin  
Mr. Mo Shangyun

*Independent Non-Executive Directors*

Mr. Deng Xinping  
Mr. Ong Chor Wei  
Mr. Zhao Wei

### AUDIT COMMITTEE

Mr. Ong Chor Wei  
*(Chairman of the Audit Committee)*  
Mr. Deng Xinping  
Mr. Zhao Wei

### NOMINATION COMMITTEE

Mr. Na Qinglin  
*(Chairman of the Nomination Committee)*  
Mr. Deng Xinping  
Mr. Huang Bin  
Mr. Ong Chor Wei  
Mr. Zhao Wei

### REMUNERATION COMMITTEE

Mr. Deng Xinping  
*(Chairman of the Remuneration Committee)*  
Mr. Na Qinglin  
Mr. Huang Bin  
Mr. Ong Chor Wei  
Mr. Zhao Wei

## CORPORATE GOVERNANCE COMMITTEE

Mr. Na Qinglin  
*(Chairman of the Corporate Governance Committee)*  
Mr. Zhou Yu

## AUTHORIZED REPRESENTATIVES

Mr. Na Qinglin  
Mr. Tse Kam Fai *(FCS, FCIS)*  
Mr. Wang Kevin Haigeng  
*(Alternative Authorized Representative)*

## COMPANY SECRETARY

Mr. Tse Kam Fai *(FCS, FCIS)*

## INVESTOR RELATIONS CONTACT

Mr. Wang Kevin Haigeng  
Vice President of Finance and Business Development  
Tel: (852) 2307 4100  
Fax: (852) 2307 4300  
E-mail: [ir@o-netcom.com](mailto:ir@o-netcom.com)

## LEGAL ADVISORS TO THE COMPANY

*As to Hong Kong law:*  
Deacons

*As to Chinese law:*  
Global Law Office

*As to Cayman Islands law:*  
Conyers Dill & Pearman

*As to U.S. law:*  
Shearman & Sterling

## AUDITOR

PricewaterhouseCoopers

## PROPERTY VALUER

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

## VALUER

ValQuest Advisory Group Limited

## PRINCIPAL BANKERS

*China*  
China Construction Bank  
Bank of China  
China Merchants Bank  
Standard Chartered Bank

*Hong Kong*  
The Hongkong & Shanghai Banking Corporation Limited

## STOCK INFORMATION

*Place of Listing*  
The Stock Exchange of Hong Kong Limited

*Stock Code*  
0877

*Listing Date*  
29 April 2010

*Issued Share Capital*  
821,468,240 shares  
*(as at this report approval date)*

*Board Lot Size*  
1,000 shares

## CAYMAN ISLANDS SHARE REGISTRAR

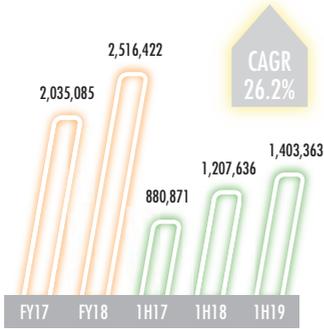
Conyers Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## HONG KONG SHARE REGISTRAR

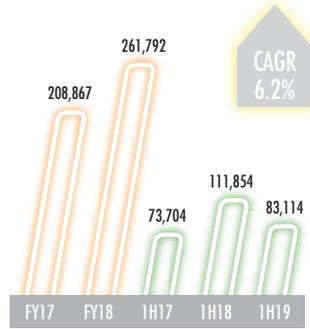
Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

# FINANCIAL HIGHLIGHTS

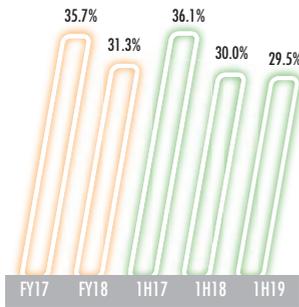
Revenue  
HKD'000



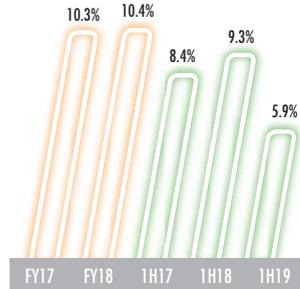
Profit Attributable to Equity Holders of the Company  
HKD'000



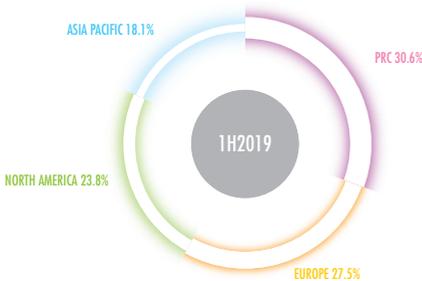
Gross Profit Margin



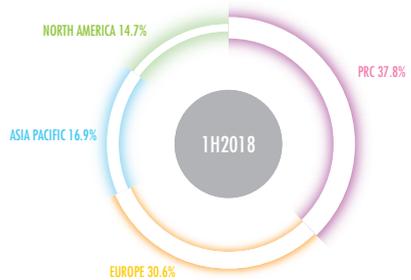
Profit Margin-Equity Holders of the Company  
HKD'000



Revenue by Geographical Segment



Revenue by Geographical Segment



## MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2019, the Group has continued to bolster its position as a leader in the provision of high-technology products and solutions. As major Asian economies enter the 5G era, continuous upgrades of regional and global optical networks will continue to accelerate growth of the Group's core communications products. During the first half of 2019, it has also made significant strides in emerging fast-growth segments such as laser chips for pump lasers and high-speed optical transceivers, as well as laser chips and optical components for Light Detection And Ranging ("LiDAR") through two acquisitions. The first of these acquisitions is 3SP Technologies ("3SP"), a specialist in indium phosphide ("InP") and gallium arsenide ("GaAs") based chips for lasers while the second is ITF Technologies Inc. ("ITF"), a company engaged in design, manufacturing and sales of high reliability optical components and modules for the telecom sector as well as high power devices and subassemblies for the industrial sector.

Apart from the optical networking market for telecommunications applications, its traditional core business, the Group will continue to focus on other segments, including: (i) electronic cigarettes; (ii) machine vision; (iii) industrial fiber lasers; (iv) LiDAR for emerging Advanced Driver Assistance Systems ("ADAS") applications; and (v) coating services for the consumer electronics market. Being consistent with this strategic direction and its overall goal to further distinguish itself as a leader in the global technology industry, it will continue to seek opportunities to realize synergies and promote business growth.

## INDUSTRY AND BUSINESS REVIEW

Despite challenges faced by global technology companies relating to international trade disputes, the Group has managed to achieve further business growth and has delivered an outstanding performance through its business transformation, diversification strategy and better R&D capabilities.

### Optical Networking Business

The global optical components market continued on the uptrend driven by network upgrades for the eventual deployment of the mobile 5G internet. As part of this upgrade, both telecom and datacom operators have made significant investments in (i) expanding rapidly throughout the metro network in the telecommunications market; and (ii) data center operators continuing to announce new 400GbE data center builds. In addition to speed increases, 5G operators have shown a keen interest in adopting greater implementation of WDM and interleaver solutions to increase network bandwidth. While the global optical components market is expected to grow by 6% during the first half of 2019 as compared with the same period last year, the Group's revenue of optical networking business for the reporting period rose 21.5%, reaching HKD1,197.8 million at the end of the first half of 2019 as compared to HKD985.8 million in the first half of 2018.

## Industrial and Sensing Businesses

The Group's advanced technological platforms enable it to deliver products and services to customers across different industries, including companies engaged in (i) electronic cigarettes; (ii) machine vision; (iii) the industrial laser business; (iv) the LiDAR business; and (v) consumer electronics. During the first half of 2019, the Industrial and Sensing businesses has generated revenue of HKD205.6 million and gross profit of HKD77.4 million. The declines were largely due to the weakness in the consumer electronics business.

### Automation Solutions Business for E-cigarette Business

During the first half of the year, as a leading automation solutions supplier, the Group continued to provide various automation solutions for the E-cigarette manufacturing industry. As the global trend towards healthier alternatives to traditional smoking continues to gain traction, the e-cigarette market will likely continue its current pace of impressive growth.

Capitalizing on the Group's longstanding relationships with several major E-cigarette makers in China and overseas leading E-cigarette players, its automation solutions business achieved revenue of HKD76.6 million in the first half of 2019, growing 92.0% compared with the same period of 2018.

### Machine Vision Business

In FY2015, the Group rolled out its first machine vision system and in the past year has continued to invest and expand product portfolios to cater to strong demand. In the first half of 2019, the machine vision system segment declined 7.8% over the same period of 2018, contributing HKD22.6 million in revenue to the industrial and sensing businesses. The primary reason for this decline was weaker demand environment and increasing competition.

### Industrial Laser Business

Since 2006, ITF has addressed several applications for industrial fiber lasers across the different power and wavelength spectra, including macro/micro material processing, marking and engraving, and welding applications. Fiber laser sales growth is driven by (i) power efficiency; (ii) cost competitiveness; (iii) ease of maintenance; and (iv) relative durability.

In view of the significant position of fiber lasers, the Group has successfully tapped the industrial laser industry through the acquisition of ITF and has become a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems. During the first half of 2019, the Industrial Laser Business generated revenue of HKD72.3 million, a decline of 14.2% compared with the same period of 2018. The primary reason for this decline was the mid-year transition from 2kW to 6kW fiber laser platforms, which delayed shipments into the second half of the year.

## LiDAR Business

The Group is also a pioneer in LiDAR, which is among the key solutions for making high-resolution images or maps used by Advanced Driving Assistance Systems (“ADAS”). This significant growth will be driven by the rise in automated and highly automated vehicles on the road in ten years’ time. To capitalize on such growth, the Group has established a production line for the assembly of LiDAR, and its optical products for LiDAR. Furthermore, it is pursuing cooperation with major LiDAR players for securing additional customers. All of these efforts have helped to further bolster the Group’s position in this burgeoning business segment. Consequently, the LiDAR segment has generated HKD6.0 million in revenue for the industrial and sensing businesses in the first half of 2019, a decline of 46.9% as compared with the same period a year ago. The primary reason for this decline is due to the ramping up of the new Kala LiDAR platform to replace the older PANDA generation product.

## Consumer Electronics Business

Capitalizing on the Group’s cutting-edge coating technologies, it has provided antireflective, anti-fingerprint and color lamination coating services, and experienced continued demand from the smartphone market. Consumer electronics revenue was HKD28.1 million in the first half of 2019, declining 54.5% from the same period a year ago. The primary reason for this decline was due to a slowdown in the smartphone replacement cycle coupled with a weak pricing environment for smartphone coating services.

## FINANCIAL REVIEW

### Revenue

For the first half of 2019, the Group reported revenue of HKD1,403.4 million, representing an increase of HKD195.8 million, or 16.2%, compared with that of HKD1,207.6 million in the first half of 2018. The increase in revenue in the first half of 2019 was primarily attributable to the growth in revenue of optical networking business.

### Optical Networking Business

The optical networking business recorded revenue of HKD1,197.8 million in the first half of 2019, representing an increase of HKD212.0 million, or 21.5% as compared with that of HKD985.8 million in the first half of 2018. The increase was primarily attributable to the growing demand for the optical networking products in both passive and active components.

### Industrial and Sensing Businesses

The industrial and sensing businesses recorded revenue of HKD205.6 million in the first half of 2019, representing a decrease of HKD16.2 million, or 7.3% as compared with that of HKD221.8 million in the first half of 2018, attributable to the net effect of (i) decrease of revenue in consumer electronics business, industrial laser business, machine vision business and LiDAR business; and (ii) strong growth of revenue in automation solutions business for E-cigarettes.

## Machine vision business

Revenue of HKD22.6 million was recorded in the first half of 2019, representing a decrease of HKD1.9 million, or 7.8% as compared with that of HKD24.5 million in the first half of 2018. Slightly drop in revenue in the first half of 2019 was due to weaker demand environment and increasing competition.

## Automation Solutions Business for E-cigarettes

Revenue of HKD76.6 million was recorded in the first half of 2019, representing an increase of HKD36.7 million, or 92.0% as compared with that of HKD39.9 million in the first half of 2018. The increase in revenue in the first half of 2019 was primarily attributable to the greater demand for heating coils from the major E-cigarette makers.

## Industrial laser business

The Group's industrial laser business was contributed by supplying optical components for the industrial laser application, such as fiber lasers. In the first half of 2019, revenue from the industrial laser business of HKD72.3 million was recorded, representing a decrease of HKD12.0 million, or 14.2% as compared with that of HKD84.3 million in the first half of 2018. The revenue decrease was primarily due to the drop of sale of highpower laser FBG.

## LiDAR business

Revenue of HKD6.0 million was recorded in the first half of 2019, representing a decrease of HKD5.3 million, or 46.9% as compared with that of HKD11.3 million in the first half of 2018 which was due to the ramping up of the new Kala LiDAR platform to replace the older PANDA generation product.

## Consumer Electronics Business

Revenue of HKD28.1 million was recorded in the first of 2019, representing a decrease of HKD33.7 million, or 54.5% as compared with that of HKD61.8 million in the first half of 2018 which was primary due to slowdown in the smartphone replacement cycle coupled with a weak pricing environment for smartphone coating services.

## Gross Profit and Gross Profit Margin

The gross profit in the first half of 2019 was HKD414.2 million, representing an increase of HKD51.9 million, or 14.3%, from the gross profit of HKD362.3 million in the first half of 2018. The higher gross profit was primarily due to the rise in revenue from optical networking business of the Group.

As a percentage of total revenue, gross profit margin decreased to 29.5% in the first half of 2019 as compared with 30.0% in the first half of 2018. The decrease of gross profit margin was the result of the gross profit margin of optical networking business decreased to 28.1% in the first half of 2019 as compared with 29.0% in the first half of 2018 which was mainly attributable to the write-down of inventories due to the unexpected decline of demand of certain active optical products.

## Other Gains

Other gains in the first half of 2019 decreased by HKD38.4 million to HKD22.1 million, from HKD60.5 million in the first half of 2018, which was due to the net effects of (i) fair value gain on financial assets at fair value through profit or loss of HKD44.3 million attributable to the public listing of an investment in the first half of 2018; and (ii) government grants increased by HKD3.0 million due to the consolidation of 3SP in the first half of 2019.

## Selling and Marketing Costs

Selling and marketing (“S&M”) costs in the first half of 2019 was HKD45.2 million which was stable as compared with HKD45.3 million in the first half of 2018. S&M costs as a percentage of revenue decreased to 3.2% in FY2018 as compared with 3.8% in the first half of 2018. The reason was mainly attributable to the higher revenue outweighing overall selling and marketing costs.

## Research and Development Expenses

Research and development (“R&D”) expenses in the first half of 2019 were HKD154.8 million, HKD23.5 million or 17.9% higher compared with HKD131.3 million in the first half of 2018. The rise in R&D expenses was mainly due to the net effect of (i) the increase in salary costs for the R&D engineers; (ii) the increase in share options/share awards expenses, (iii) impairment loss and amortisation of intangible assets; and (iv) change of classification of amortisation of intangible assets. R&D expenses as a percentage of revenue slightly increased to 11.0% in the first half of 2019 as compared with 10.9% in the first half of 2018. This was mainly due to a higher R&D expenses of 3SP as a percentage of revenue since the consolidation of 3SP in the first half of 2019.

The salary costs for R&D engineers was HKD80.0 million in the first half of 2019, representing an increase of HKD10.3 million, or 14.8% as compared with HKD69.7 million in the first half of 2018. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers, (ii) higher salaries; and (iii) consolidation of 3SP due to the completion of acquisition in the first half of 2019.

Share options/share awards expenses in the first half of 2019 was HKD7.2 million, representing an increase of HKD2.0 million, or 38.5% as compared with HKD5.2 million in the first half of 2018. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in the first half of 2019 and FY2018.

Impairment loss of intangible assets of HKD4.7 million was provided in the first half of 2019 due to the unexpected decline of demand of certain active optical products. The fair value of intangible assets of HKD62.3 million was acquired through the completion of acquisition of 3SP in the first half of 2019, resulting additional amortisation of intangible assets of HKD1.6 million.

To have a better classification, amortisation of intangible assets increased by HKD2.3 million in the first half of 2019 as the amortisation of intangible assets was classified in administrative expenses in the first half of 2018.

## Administrative Expenses

Administrative expenses in the first half of 2019 were HKD113.0 million, HKD8.3 million or 7.9% higher as compared with HKD104.7 million in the first half of 2018. The increase of administrative expenses in the first half of 2019 was primarily attributable to (i) the increase of the salary costs; (ii) the increase of share options/share awards expenses; and (iii) increase in overall administrative expenses. However, administrative expenses as a percentage of revenue decreased to 8.1% in the first half of 2019 as compared with 8.7% in the first half of 2018. The reason was mainly attributable to the higher revenue outweighing the increase in the overall administrative expenses.

For the first half of 2019, the salary costs was HKD61.8 million, representing an increase of HKD4.3 million, or 7.5% as compared with HKD57.5 million for the first half of 2018. The increase was primarily attributable to (i) an increment in salaries, (ii) hiring of new staff; and (iii) consolidation of 3SP due to the completion of acquisition in the first half of 2019.

Share options/share awards expenses in the first half of 2019 was HKD4.2 million, representing an increase of HKD1.4 million, compared with HKD2.8 million in the first half of 2018. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in the first half of 2019 and FY2018.

The other administrative expenses rose in line with the scale of the Group and the consolidation of 3SP due to the completion of acquisition in the first half of 2019.

## Finance Expenses/Income

Finance income in the first half of 2019 amounted to HKD1.8 million, representing a decrease of HKD6.1 million, compared with HKD7.9 million in the first half of 2018. The decrease in finance income was primarily due to the net effect of (i) the impact of the weaker USD (for entities within the Group using RMB as functional currency) on net effect of sales transactions and balances, the foreign exchange loss was HKD1.0 million in the first half of 2019 as compared with foreign exchange gain of HKD4.4 million in the first half of 2018; and (ii) the decrease in interest income of HKD1.7 million.

Finance expenses in the first half of 2019 amounted to HKD17.2 million, representing a decrease of HKD3.6 million, or 17.3% as compared with HKD20.8 million in the first half of 2018. The decrease in finance expenses was primarily due to the decrease in interest rate and averaged balance of bank borrowings.

## Share of the Result of Associates

Share of losses of associates was HKD2.3 million for the first half of 2019, which represents share of results of two associates accounted for using equity method.

The management has reassessed the Company's significant influence over an investee taken account into its successful listing in Taiwan Stock Exchange, there was a change in classification of fair value through profit or loss to investment in an associate in first half of 2018. In addition, there was a new acquisition of another associate in October 2018.

## Share of Loss of a Joint Venture

Share of loss of a joint venture was HKD2.3 million for the first half of 2019, which represents an increase of HKD1.7 million compared with HKD0.6 million for the first half of 2018. The increase in R&D expenses of a joint venture was primarily attributable to the more new R&D projects in the first half of 2019.

## Income Tax Expenses

Currently, income tax expenses of the Group mainly consist of P.R.C. Enterprise Income Tax ("PRC EIT"), Canada profits tax and deferred taxation, which were calculated at the rates prevailing in the relevant jurisdictions.

PRC EIT is based on the assessable income of entities within the Group that are incorporated in the PRC, and adjusted for items which are not assessable or deductible for PRC EIT purposes. Canada profits tax is based on the taxable income of the entity within the Group that is incorporated in Canada based on the applicable income tax rate.

Income tax expenses in the first half of 2019 amounted to HKD23.0 million, representing an increase of HKD4.5 million or 24.3% from the income tax expenses of HKD18.5 million in the first half of 2018. The increase in income tax expenses was primarily due to the increase in taxable profits.

## 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 the 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 comparable measures as required under HKFRS issued by the HKICPA.

	For the period ended 30 June	
	2019 <i>HKD'000</i>	2018 <i>HKD'000</i>
<b>Adjustment to Measure Non-GAAP Gross Profit</b>		
Gross Profit	414,161	362,269
<b>Adjustment Related to Cost of Sales</b>		
Provision for inventory write-down	28,280	3,450
Non-GAAP Gross Profit	442,441	365,719
<b>Adjustment to Measure Non-GAAP Net Profit*</b>		
Net Profit*	83,114	111,854
<b>Adjustment Related to Cost of Sales</b>		
Provision for inventory write-down	28,280	3,450
<b>Adjustments to Measure to Operating expenses</b>		
Share options and share awards granted to directors and employees	18,938	12,961
Amortization of intangible assets	8,324	4,325
Provision for impairment of intangible asset	4,746	—
<b>Non-GAAP Net Profit*</b>	<b>143,402</b>	<b>132,590</b>
Non-GAAP EPS		
— Basic	0.18	0.17
— Diluted	0.18	0.16
Gross Profit Margin	29.5%	30.0%
Non-GAAP Gross Profit Margin	31.5%	30.3%
Net Profit* Margin	5.9%	9.3%
Non-GAAP Net Profit* Margin	10.2%	11.0%

\* Profit attributable to Equity Holders of the Company

## FUTURE PROSPECTS

Going forward, the Group is confident that it will achieve further progress across all of its business activities. In respect of the optical networking business, it will introduce the next generation of innovative products to seize opportunities in the fast-evolving optical components market, particularly the 5G market. As for the new businesses, the Group envisages its various segments will steadily grow to become significant contributors, driven by the advent of smart factories and new applications such as ADAS and electronic cigarettes. The Group is no less optimistic about developments on electronic cigarettes, machine vision, fiber laser, and LiDAR as each of these businesses will serve as catalysts for its future advancement and growth.

### Optical Networking Business

Underpinned by innovation, the Group remains fully optimistic that the optical networking business will make even greater inroads in the market that is projected to expand at a compound annual growth rate of 8% between 2019 and 2023. The telecommunications market is expected to advance further due to ongoing double-digit traffic volume growth which will drive network infrastructure development, especially 400GbE metro network deployment. On the other hand, the upsurge demand for web-scale data centers and data center upgrades to complement the introduction of 400GbE since the second half of 2018 are expected to be the catalysts for growth in the data-communications market.

With strong growth forecasted for the global telecommunications and data-communications markets, the Group has already taken measures to strengthen its position in both sectors. In particular, given the high pace of growth of its 5G-enabled optical business, the Group is well on its way to introduce new iterations of advanced products to the market. Furthermore, the mini ICR, linecards, and pump lasers products, having already been launched and qualified, will continue with mass production and shipments in the second half of 2019.

### Industrial and Sensing Businesses

While China's automation industry will be valued at approximately USD100 billion in 2020 according to an estimate, a large number of local Chinese enterprises lag behind in industrial production facilities, hence the window of opportunity is immense. The Group will therefore look to build on the successes achieved by its industrial and sensing businesses by providing automation solutions, as well as offering its machine vision systems. The Group is confident that its automation, sensing and industrial products will be able to seize opportunities generated from the Industry 4.0 trend — placing it among the first automation solutions providers in the Industry 4.0 area.

By leveraging its existing technology platforms and manufacturing capabilities, the Group's subsidiary ITF will continue to develop and launch new solutions for high power fiber laser. To address this high-potential market, ITF continues to be uniquely positioned by offering a broad range of fiber-based components and modules necessary for the operation of fiber lasers — including high power fiber lasers. Coupled with the ongoing development and introduction of additional building blocks for multi-kilowatt fiber lasers, the Group is positioning itself as a key enabler in the transition of materials processing markets to the fiber laser sector to include metal cutting and welding, as well as marking and engraving applications. On this front, the Group expects to continue to outpace the market growth rate and expand its scale of business.

LiDAR is believed to be one of the most significant technologies to be used in ADAS and affecting the evolution of the automobile. The Group, along with ITF and 3SP, is committed to developing LiDAR modules in order to lead the industry in LiDAR applications for autonomous vehicles. Already one of the key components suppliers of the technology, the Group is optimistic about its future demand, and to expedite adoption, it has embarked on development of the next generation of LiDAR underpinned by the Group's vertical integration that would be at a lower price point. O-Net, along with ITF and 3SP, supply key optical components and modules necessary to the successful deployment of a cost-effective LiDAR solution which would make ADAS a more cost-effective proposition to members of the automotive industry. The Group is confident that this business segment will serve as an additional revenue stream that can drive its overall revenue growth in the future.

Capitalizing on its cutting-edge coating technology to provide anti-reflective, anti-fingerprint and color lamination coating services to Chinese smartphone manufacturers, the Group is striving to secure more new customers, including those from the consumer electronics industries, which will eventually improve its overall profitability.

While the Group has made significant progress in all of its business activities, thus bringing it closer to the realization of its vision of becoming a high technology leader with a solid technological foundation for innovation, it recognizes that much work still needs to be done. The Group will therefore continue to seize fresh opportunities that further enhance the value of its products, elevate its market position, sustain growth and deliver favorable returns to its shareholders.

## **GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2019, the Company's issued share capital was approximately HKD8.0 million divided into 802,532,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD2,327.0 million (31 December 2018: HKD2,247.5 million). The Group had current assets of HKD2,082.0 million and current liabilities of HKD1,120.8 million and the current ratio was 1.86 times as at 30 June 2019 (31 December 2018: 1.93 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 23.6% at 30 June 2019 (31 December 2018: 21.7%)

As at 30 June 2019, the Group had cash and cash equivalents of approximately HKD520.5 million (31 December 2018: HKD341.6 million). The increase was due to cash generated from operation, decrease of pledged bank deposits and increase in bank borrowings. 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.

## PLEDGE ON GROUP ASSETS

As at 30 June 2019, the Group had bank deposits of HKD6.2 million (31 December 2018: HKD65.7 million) pledged as guarantee for payables to suppliers for purchasing of goods and for bank borrowings.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2019, the Group had contractual capital commitments of approximately HKD80.0 million (31 December 2018: HKD4.2 million). As of 30 June 2019, 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 2019, 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 HKD97.4 million (six-month period ended 30 June 2018: 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 2019, the Group had a total of 5,794 employees (30 June 2018: 4,901). The Group's staff costs (including Directors' fees) amounted to HKD331.8 million in the first half of 2019 (six-month period ended 30 June 2018: HKD305.0 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 2019, no option was granted (six-month period ended 30 June 2018: Same).

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 2019, no restricted shares were purchased by the trustee from the market and no new shares were issued by the Company for the purpose of the Award Scheme (six-month period ended 30 June 2018: Same).

On 15 July 2019, the Board resolved to allot and issue 18,881,000 new shares to the trustee under the Award Scheme (the "Issue of New Shares") in order to grant awards to selected grantees. The Issue of New Shares completed on 1 August 2019. Details of the Issue of New Shares are set out in the announcement made by the Company dated 15 July 2019.

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 2019 (six-month period ended 30 June 2018: Nil), but the Board will take into account the then financial position and cash flows of the Group as at and for the year ending 31 December 2019, for the consideration of any final dividend to be proposed and declared in accordance with the dividend policy of the Group.

## **SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION**

On 21 April 2017, O-Net Communications Holdings Limited ("O-Net BVI"), a wholly-owned subsidiary of the Company, entered into the formal sale and purchase agreement (the "Formal Agreement") with API in relation to the acquisition by O-Net BVI of the 100% equity interest of 3SP.

On 19 March 2019, O-Net BVI has entered into the Supplemental Agreement with API and its sole shareholder to acquire 100% equity interest of API, which holds 100% equity interest of 3SP. Completion of the acquisition of 3SP took place on the same day.

Save as aforesaid, the Group did not have any significant investment held nor there were any other material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2019.

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

As at 30 June 2019, the Group maintained sufficient funds for the capital investment and operations in the coming year.



## **MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD**

On 15 July 2019, the Board resolved to allot and issue 18,881,000 new shares to the trustee under the Award Scheme in order to grant awards to selected grantees. The Issue of New Shares completed on 1 August 2019. Details of the Issue of New Shares are set out in the announcement made by the Company dated 15 July 2019.

Save as aforesaid, there has been no material event since the end of the financial period.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Other than the share options of the Company held by the Directors under the Post-IPO Share Option Scheme, at no time for the first half of 2019 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

### CHANGES IN DIRECTORS' INFORMATION

Changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Change
Ong Chor Wei <i>Independent non-executive Director</i>	resigned as a non-executive director of Vico International Holdings Limited (a company listed on the Stock Exchange, Stock Code: 1621) on 1 February 2019

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2019, the interests or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

#### Interests or Short Positions in Shares, Underlying Shares and Debentures of the Company

Name of Director	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of a controlled corporations	Long position	6,232,000 (Note 1)	0.78%
Mr. Deng Xinping	Beneficial owner	Long position	500,000 (Note 2)	0.06%

<b>Name of Director</b>	<b>Capacity</b>	<b>Long position/ Short position</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of the Company's issued share capital</b>
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000 <i>(Note 2)</i>	0.06%
Mr. Zhao Wei	Beneficial owner	Long position	500,000 <i>(Note 2)</i>	0.06%

*Notes:*

1. These include (i) 5,232,000 shares of the Company (the "Share(s)") held by Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na; and (ii) 1,000,000 awarded shares granted to Mr. Na according to the restricted share award scheme adopted by the Board on 9 May 2014.
2. These shares are derived from the interests in share options granted by the Company pursuant to the Post-IPO Share Option Scheme, details of which are set out in the section headed "Share Option Schemes" and also Note 18 to the condensed consolidated interim financial statements.

## Interests and Short Positions of Substantial Shareholders/Other Persons Recorded in the Register Kept Under Section 336 of the SFO

As at 30 June 2019, so far as is known to the Directors and chief executives of the Company, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company, other than the interests of Directors as disclosed above, as recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Kaifa Technology (H.K.) Limited	Beneficial owner	Long position	171,121,237	21.32%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	171,121,237 <i>(Note)</i>	21.32%
China Electronics Corporation	Interest of controlled corporations	Long position	171,121,237 <i>(Note)</i>	21.32%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	228,373,383	28.46%
Li Guangxin	Beneficial owner	Long position	40,122,000	5.00%

*Note:* These 171,121,237 shares are held through Kaifa Technology (H.K.) Limited, a company wholly-owned by Shenzhen Kaifa Technology Co., Ltd., which in turn is a subsidiary of China Electronics Corporation; therefore, each of Shenzhen Kaifa Technology Co., Ltd. and China Electronics Corporation is deemed to be interested in these 171,121,237 shares under the SFO.

## SHARE OPTION SCHEMES

### Pre-IPO Share Option Scheme

Details of the Pre-IPO Share Option Scheme are set out in the Prospectus and Note 18 to the condensed consolidated interim financial statements.

## Post-IPO Share Option Scheme

The Company adopted the Post-IPO Share Option Scheme on 9 April 2010. Details of the movements in the Company's share options during the reporting period under the Post-IPO Share Option Scheme are set out below:

Name or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 January 2019	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 June 2019
<b>Directors</b>									
Mr. Deng Xinping	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	500,000	—	—	—	—	500,000
Mr. Ong Chor Wei	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	500,000	—	—	—	—	500,000
Mr. Zhao Wei	9 April 2014	28 March 2015 to 8 April 2020 (Note 10)	2.400	500,000	—	—	—	—	500,000
Sub-total				1,500,000	—	—	—	—	1,500,000
<b>Other Employees</b>									
	10 October 2011	10 October 2012 to 8 April 2020 (Note 2)	1.870	2,000,000	—	—	—	—	2,000,000
	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	1,225,000	—	(30,000)	—	—	1,195,000
		2 June 2012 to 8 April 2020 (Note 3)		1,027,000	—	(19,000)	—	—	1,008,000
		2 June 2013 to 8 April 2020 (Note 4)		1,632,000	—	(206,000)	—	—	1,426,000
		2 June 2012 to 8 April 2020 (Note 5)		833,000	—	(10,000)	—	—	823,000
	22 April 2013	3 March 2014 to 8 April 2020 (Note 6)	1.680	800,000	—	(500,000)	—	—	300,000
	25 September 2013	13 August 2014 to 8 April 2020 (Note 7)	1.652	140,000	—	—	—	—	140,000
	16 October 2013	14 October 2014 (Note 8)	1.628	2,600,000	—	(800,000)	—	—	1,800,000

Name or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 January 2019	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 June 2019
Other Employees	8 November 2013	8 November 2014 to 8 April 2020 (Note 9)	1.484	2,444,000	—	(210,000)	—	—	2,234,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 10)	2.40	344,000	—	(130,000)	—	(20,000)	194,000
<b>Total</b>				14,545,000	—	(1,905,000)	—	(20,000)	12,620,000

Notes:

1. The vesting period of 40% of the share options was commenced on 2 June 2012, and the remaining 60% of the share options was commenced on 2 June 2013, equally over a period of 3 years.
2. The vesting period was commenced on 10 October 2012, equally over a period of 5 years.
3. The vesting period was commenced on 2 June 2012, equally over a period of 4 years.
4. The vesting period was commenced on 2 June 2013, equally over a period of 3 years.
5. The vesting period of 1/3 of the share options was commenced on 2 June 2012, and the remaining 2/3 of the share options was commenced on 13 July 2012, equally over a period of 2 years.
6. The vesting period was commenced on 3 March 2014, equally over a period of 5 years.
7. The vesting period will commence on 13 August 2014, equally over a period of 5 years.
8. The vesting period will commence on 14 October 2014, equally over a period of 4 years.
9. The vesting period will commence on 8 November 2014, equally over a period of 5 years.
10. The vesting period commences on 28 March 2015, equally over a period of 5 years.

A total of 14,545,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2019. During the six months ended 30 June 2019, 1,905,000 share options were exercised into 1,905,000 Shares and 20,000 share options lapsed. Save as aforesaid, no further options were granted, cancelled, exercised or lapsed during the six months ended 30 June 2019.

## RESTRICTED SHARE AWARD SCHEME

On 9 May 2014, the Board adopted the 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 Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date. Further details of the Award Scheme are set out in the announcement of the Company dated 9 May 2014.

The aggregate number of Restricted Shares currently permitted to be awarded under the Award Scheme throughout the duration of the Award Scheme is limited to 10% of the issued share capital of the Company from time to time. Pursuant to the rules governing the operation of the Award Scheme (the "Scheme Rules"), the Board may, from time to time, at their absolute discretion select the grantee(s) (the "Selected Grantee(s)") after taking into account various factors as they deem appropriate for participation in the Award Scheme as a grantee and determines the number of Restricted Shares to be awarded. The Restricted Shares will be comprised of Shares subscribed for or purchased by the trustee appointed by the Company for administration of the Award Scheme (the "Trustee") out of cash arranged to be paid by the Company out of the Company's funds to the Trustee and be held on trust for the relevant Selected Grantees until such Shares are vested with the relevant Selected Grantees in accordance with the Scheme Rules. The Company appointed O-Net Share Award Plan Limited as the Trustee.

When the relevant Selected Grantee has satisfied all vesting conditions specified by the Board at the time of making the award and become entitled to the Restricted Shares, the Trustee shall transfer the relevant Restricted Shares to that Grantee. The relevant Selected Grantee however is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares. The said income or distributions shall be used by the Trustee for purchase of further Shares for the Scheme (or may be used as payment of the Trustee's fees or expenses at the election of the Company when appropriate).

The Trustee shall not exercise the voting rights in respect of any Shares held on trust for the relevant Selected Grantees (including but not limited to the Restricted Shares, and further Shares acquired out of the income derived therefrom).

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, the Company repurchased 217,000 shares of HKD0.01 each in the capital of the Company at prices ranging from HKD3.58 to HKD3.61 per share on the SEHK. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share		Aggregate purchase consideration (excluding expenses) <i>HKD</i>
		Highest	Lowest	
		<i>HKD</i>	<i>HKD</i>	
January 2019	217,000	3.61	3.58	780,710.00
	217,000			780,710.00

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 as set out in Appendix 10 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2019.

## 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 2019.

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 2019, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviation as explained below:–

Under code provision A.2.1 of the CG Code, the role of chairman and chief executive officer (“CEO”) should be separate and should not be performed by the same individual. Mr. Na Qinglin, the Chairman of the Company, is also the CEO. The Board believes that vesting the roles of both the Chairman and the CEO in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

Save as mentioned above, in the opinion of the Directors, the Company has met the relevant code provisions set out in the CG Code during the six months ended 30 June 2019.

## 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 to review the risk management and internal control systems of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2019 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.

By order of the Board  
**O-Net Technologies (Group) Limited**  
**Na Qinglin**  
*Chairman and Chief Executive Officer*

Hong Kong, 20 August 2019

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		(Unaudited)	
		For the six months ended 30 June	
	Note(s)	2019 HKD'000	2018 HKD'000
Revenue	9	1,403,363	1,207,636
Cost of sales		(989,202)	(845,367)
<b>Gross profit</b>		<b>414,161</b>	<b>362,269</b>
Other gains — net	9	22,096	60,451
Selling and marketing costs		(45,239)	(45,301)
Research and development expenses		(154,750)	(131,318)
Administrative expenses		(113,004)	(104,718)
<b>Operating profit</b>		<b>123,264</b>	<b>141,383</b>
Finance expenses — net	12	(15,355)	(12,921)
Share of losses of investments accounted for using equity method		(4,615)	(609)
<b>Profit before income tax</b>	<b>10</b>	<b>103,294</b>	<b>127,853</b>
Income tax expenses	13	(23,003)	(18,470)
Profit for the period		<b>80,291</b>	<b>109,383</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		83,114	111,854
Non-controlling interests		(2,823)	(2,471)
		<b>80,291</b>	<b>109,383</b>
<b>Earnings per share for profit attributable to equity holders of the Company (HKD per share)</b>			
— Basic	15	0.10	0.14
— Diluted	15	0.10	0.14

## CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note(s)	As at 30 June 2019 (Unaudited) HKD'000	As at 31 December 2018 (Audited) HKD'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use right		—	23,120
Property, plant and equipment	5	1,061,945	957,831
Right-of-use assets		95,622	—
Intangible assets		244,547	90,423
Investments accounted for using equity method		26,504	31,119
Deferred income tax assets		—	698
Financial assets at fair value through other comprehensive income		8,590	1,656
Derivative financial instruments		97	97
Other non-current receivables	6	—	126,832
Other non-current assets		30,768	157,154
		<b>1,468,073</b>	<b>1,388,930</b>
<b>Current assets</b>			
Inventories		562,257	501,025
Contract assets		16,357	27,180
Trade and other receivables	6	958,705	865,885
Other current assets		547	4,186
Financial assets at fair value through profit or loss		17,408	24,891
Pledged bank deposits		6,239	65,672
Cash and cash equivalents		520,451	341,591
		<b>2,081,964</b>	<b>1,830,430</b>
<b>Total assets</b>		<b>3,550,037</b>	<b>3,219,360</b>

	Note(s)	As at 30 June 2019 (Unaudited) HKD'000	As at 31 December 2018 (Audited) HKD'000
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	7	8,025	8,020
Share premium		1,107,726	1,105,589
Treasury shares		(60,847)	(60,847)
Other reserves		69,163	56,918
Retained earnings		1,207,732	1,139,778
		<b>2,331,799</b>	2,249,458
<b>Non-controlling interests</b>		<b>(4,817)</b>	(1,994)
<b>Total equity</b>		<b>2,326,982</b>	2,247,464
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		27,472	11,953
Leased liabilities		64,117	—
Deferred government grants		10,694	11,676
		<b>102,283</b>	23,629

	Note(s)	As at 30 June 2019 (Unaudited) HKD'000	As at 31 December 2018 (Audited) HKD'000
<b>Current liabilities</b>			
Trade and other payables	8	500,982	428,750
Contract liabilities		13,589	9,997
Leased liabilities		12,840	—
Current income tax liabilities		44,101	21,750
Borrowings		549,260	487,770
		<b>1,120,772</b>	948,267
<b>Total liabilities</b>		<b>1,223,055</b>	971,896
<b>Total equity and liabilities</b>		<b>3,550,037</b>	3,219,360

**Na Qinglin**  
Director

**Deng Xinping**  
Director

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited)	
	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
<b>Profit for the period</b>	<b>80,291</b>	109,383
<b>Other comprehensive expense</b>		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	<b>(6,693)</b>	(24,797)
<b>Total comprehensive income for the period</b>	<b>73,598</b>	84,586
<b>Attributable to:</b>		
Equity holders of the Company	<b>76,421</b>	87,055
Non-controlling interests	<b>(2,823)</b>	(2,469)
<b>Total comprehensive income for the period</b>	<b>73,598</b>	84,586

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	(Unaudited)						Non-controlling interests	
	Attributable to equity holders of the Company						Total	Total equity
	Share capital HKD'000	Share premium HKD'000	Treasury shares HKD'000	Other Reserves HKD'000	Retained earnings HKD'000	HKD'000	HKD'000	HKD'000
<b>Balance at 1 January 2018</b>	7,985	1,100,025	(74,927)	120,442	877,986	2,031,511	1,584	2,033,095
<b>Comprehensive income</b>								
Profit for the period	-	-	-	-	111,854	111,854	(2,471)	109,383
<b>Other comprehensive income</b>								
Currency translation differences	-	-	-	(24,799)	-	(24,799)	2	(24,797)
<b>Total other comprehensive income</b>	-	-	-	(24,799)	-	(24,799)	2	(24,797)
<b>Total comprehensive income</b>	-	-	-	(24,799)	111,854	87,055	(2,469)	84,586
Exercise of share options	26	4,168	-	-	-	4,194	-	4,194
Share option/share award scheme — value of services	-	-	-	12,961	-	12,961	-	12,961
<b>Balance at 30 June 2018</b>	8,011	1,104,193	(74,927)	108,604	989,840	2,135,721	(885)	2,134,836

	(Unaudited)							
	Attributable to equity holders of the Company							
	Share capital HKD'000	Share premium HKD'000	Treasury shares HKD'000	Other Reserves HKD'000	Retained earnings HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
<b>Balance at 1 January 2019</b>	8,020	1,105,589	(60,847)	56,918	1,139,778	2,249,458	(1,994)	2,247,464
<b>Comprehensive income</b>								
Profit for the period	—	—	—	—	83,114	83,114	(2,823)	80,291
<b>Other comprehensive income</b>								
Currency translation differences	—	—	—	(6,693)	—	(6,693)	—	(6,693)
<b>Total comprehensive income</b>	—	—	—	(6,693)	83,114	76,421	(2,823)	73,598
Dividend	—	—	—	—	(15,160)	(15,160)	—	(15,160)
Repurchase of shares	(14)	(1,116)	—	—	—	(1,130)	—	(1,130)
Exercise of share options	19	3,253	—	—	—	3,272	—	3,272
Share option/share award scheme — value of services	—	—	—	18,938	—	18,938	—	18,938
<b>Balance at 30 June 2019</b>	8,025	1,107,726	(60,847)	69,163	1,207,732	2,331,799	(4,817)	2,326,982

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	(Unaudited)	
	For the six months ended 30 June	
	2019 <i>HKD'000</i>	2018 <i>HKD'000</i>
Net cash from operating activities	139,489	262,792
Net cash used in investing activities	(16,558)	(183,480)
Net cash from/(used in) financing activities	55,051	(89,257)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>177,982</b>	<b>(9,945)</b>
Cash and cash equivalents at the beginning of the period	341,591	320,749
Exchange difference	878	1,709
<b>Cash and cash equivalents at the end of the period</b>	<b>520,451</b>	<b>312,513</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

O-Net Technologies (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 has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") since 29 April 2010 (the "IPO"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

These unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These unaudited condensed consolidated interim financial statements were approved for issue by the Board of Directors on 20 August 2019.

## 2. BASIS OF PREPARATION AND PRESENTATION

These unaudited condensed consolidated interim financial statements for the half-year reporting period ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These unaudited condensed consolidated interim financial statements do not contain all the notes of the type normally included in the annual consolidated financial statements. Accordingly, these unaudited condensed consolidated interim financial statements is to be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Company, except for the adoption of the new revised standards, amendments and interpretations issued by the HKICPA that are adopted for the first time for the current period of the financial statements.

## 2. BASIS OF PREPARATION AND PRESENTATION (Continued)

In the application of the Group's accounting policies, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimate is recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The condensed consolidated financial statements have not been audited by the Company's auditor, but have been reviewed by the Audit Committee.

## 3. CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following revised HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for these interim financial statements.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

### HKFRS 16 Leases

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HKD79,427,000. The Group expects to recognise right-of-use assets and lease liabilities of approximately HKD48,571,000 on 1 January 2019.

Net current assets will be HKD8,770,000 lower due to the presentation of a portion of the liability as a current liability.

Operating cash flows will increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

### 3. CHANGES IN ACCOUNTING POLICIES (Continued)

#### Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to the first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the leases liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 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, the senior executive management team review and assess the performance of each individual product or a particular category of products. They assess performance and allocate resources according to the total revenue derived from each customer. Gross/net profits and costs are managed in aggregate on entity level, not on individual product or customer level. The CODM considers that the Group has only one major operating segment and no segment information was disclosed.

#### 4. SEGMENT REPORTING (Continued)

All the reported revenue from sales of goods were made to external customers for the six months ended 30 June 2019 and 2018.

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

	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
The PRC	429,121	456,174
Europe	385,653	369,778
North America	334,317	177,969
Other Asian countries excluding the PRC	254,272	203,715
	<b>1,403,363</b>	<b>1,207,636</b>

- (b) The total non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2019 and 31 December 2018 are as follows:

	As at	
	30 June 2019 HKD'000	31 December 2018 HKD'000
The PRC	983,019	971,375
Hong Kong	15,639	225,986
North America	138,732	101,775
Europe	295,492	—
	<b>1,432,882</b>	<b>1,299,136</b>

## 5. PROPERTY, PLANT AND EQUIPMENT

During the reporting period, property, plant and equipment purchased and disposed of by the Group were approximately HKD97,424,000 (six-month period ended 30 June 2018: approximately HKD98,525,000) and approximately HKD82,000 (six-month period ended 30 June 2018: approximately HKD889,000).

## 6. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2019 HKD'000	31 December 2018 HKD'000
Trade receivables (a)	824,844	692,019
Less: provision for impairment of receivables	(1,046)	(1,046)
Trade receivables — net	823,798	690,973
Amounts due from related parties (a)	262	161
Bills receivable (b)	49,637	86,972
Prepayments	27,285	44,660
Interest receivables	838	611
Other receivables (c)	56,885	169,340
Less: non-current portion: other receivables (c)	958,705 —	992,717 (126,832)
Current portion	958,705	865,885

## 6. TRADE AND OTHER RECEIVABLES (Continued)

- (a) The credit period generally granted to customers is from 30 to 150 days. The ageing analysis of trade receivables based on invoice date is as follows:

Trade receivables (including trade receivable due from related party)

	As at	
	30 June 2019 HKD'000	31 December 2018 HKD'000
Within 30 days	319,769	312,916
31 to 60 days	233,714	180,922
61 to 90 days	156,664	133,089
91 to 180 days	105,571	58,893
181 to 365 days	7,520	4,525
Over 365 days	1,614	1,835
	<b>824,852</b>	<b>692,180</b>

- (b) Bills receivable are with maturity dates between 30 and 365 days. The ageing analysis of bills receivable is as follows:

Bills receivable

	As at	
	30 June 2019 HKD'000	31 December 2018 HKD'000
Within 30 days	9,595	15,552
31 to 90 days	16,947	33,989
91 to 180 days	22,733	36,768
181 to 365 days	362	663
	<b>49,637</b>	<b>86,972</b>

## 6. TRADE AND OTHER RECEIVABLES (Continued)

### (c) Other receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. (“IPI”), a third-party supplier of the Group amounting to HKD26,685,000 (2018: HKD26,685,000), pursuant to an agreement signed between O-Net Communications (Shenzhen) Limited (“O-Net Shenzhen”), a subsidiary of the Company, and IPI in 2014. Under the agreement, O-Net Shenzhen will ensure stable supply of goods by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD26,685,000) to purchase 2,600 troy ounces of platinum (“Platinum”) and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum. The other receivable due from IPI will be repaid in late 2019.

## 7. SHARE CAPITAL

	Authorized share capital — ordinary shares of par value of HKD0.01 each	
	<i>Number of shares</i>	<i>HKD</i>
As at 30 June 2019 and 30 June 2018	10,000,000,000	100,000,000
	Authorized share capital — ordinary shares of par value of HKD0.01 each	
	<i>Number of shares</i>	<i>HKD</i>
As at 1 January 2018	798,467,240	7,985
Exercise of share options during the period (b)	2,653,000	26
As at 30 June 2018	801,120,240	8,011
<b>As at 1 January 2019</b>	<b>802,034,240</b>	<b>8,020</b>
Repurchase and cancellation of shares during the period (a)	(1,407,000)	(14)
Exercise of share options during the period (b)	1,905,000	19
<b>As at 30 June 2019</b>	<b>802,532,240</b>	<b>8,025</b>

## 7. SHARE CAPITAL (Continued)

- (a) During the six months ended 30 June 2019, the Company repurchased and cancelled 1,407,000 ordinary shares (six-month period ended 30 June 2018: Nil).
- (b) During the six months ended 30 June 2019 and 2018, 1,905,000 and 2,653,000 share options were exercised into 1,905,000 and 2,653,000 shares, respectively.

## 8. TRADE AND OTHER PAYABLES

	As at	
	30 June 2019 <i>HKD'000</i>	31 December 2018 <i>HKD'000</i>
Trade payables (a)	318,487	238,616
Bills payable (b)	60,811	63,397
Accrued expenses	46,412	31,166
Accrued staff cost	52,746	66,145
Other payable	22,526	29,426
	<hr/>	<hr/>
	500,982	428,750

## 8. TRADE AND OTHER PAYABLES (Continued)

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

### Trade payables

	As at	
	30 June 2019 HKD'000	31 December 2018 HKD'000
Within 30 days	141,678	148,594
31 to 60 days	110,495	41,571
61 to 180 days	52,273	27,222
181 to 365 days	2,997	9,776
Over 365 days	11,044	11,453
	<b>318,487</b>	<b>238,616</b>

- (b) Bills payable are with maturity dates between 30 and 365 days. The ageing analysis of bills payable is as follows:

	As at	
	30 June 2019 HKD'000	31 December 2018 HKD'000
Within 30 days	1,621	31,054
31 to 90 days	20,148	10,307
91 to 180 days	30,117	22,036
181 to 365 days	8,925	—
	<b>60,811</b>	<b>63,397</b>

## 9. REVENUE AND OTHER GAINS

Revenue mainly consists of sales of optical networking products and products of smart manufacturing applications. Revenue and other gains recognized during the six months ended 30 June 2019 and 2018 are as follows:

	For the six months ended 30 June	
	2019 <i>HKD'000</i>	2018 HKD'000
Revenue		
Sales of goods	1,403,363	1,207,636
Other gains — net		
Government grants	18,712	15,672
Rental income	1,057	837
Fair value loss on derivative financial instruments	—	44,327
Others	2,327	(385)
	22,096	60,451
Total	1,425,459	1,268,087

## 10. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
Staff costs — excluding share options and share awards granted to directors and employees	312,829	291,962
Share options and share awards granted to directors and employees	18,938	12,961
Raw materials consumed	600,532	503,821
Changes in inventories of finished goods and work in progress	6,356	148,295
Depreciation	54,343	46,066
Amortization	8,324	4,325
Provision for impairment of intangible asset	4,746	—
Provision for write-down of inventories	28,280	3,450

## 11. STAFF COSTS — INCLUDING DIRECTORS' EMOLUMENTS

	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
Salaries, bonus and other welfares	301,568	281,764
Pension — defined contribution plans	11,261	10,198
Share options/share awards granted to directors and employees ( <i>Note 10</i> )	18,938	12,961
	<b>331,767</b>	<b>304,923</b>

## 12. FINANCE EXPENSES — NET

	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
Finance expenses		
— Bank borrowings	(15,136)	(20,812)
— Lease liabilities	(1,095)	—
— Net exchange loss	(955)	—
<b>Total finance expenses</b>	<b>(17,186)</b>	<b>(20,812)</b>
Finance income		
— Interest income derived from bank deposits	1,831	3,488
— Net exchange gain	—	4,403
<b>Total finance income</b>	<b>1,831</b>	<b>7,891</b>
<b>Net finance expenses</b>	<b>(15,355)</b>	<b>(12,921)</b>

## 13. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
Current income tax		
— Hong Kong profits tax (c)	9,663	—
— Canada profit tax (d)	4,472	5,766
— PRC enterprise income tax (f)	11,720	15,352
<b>Total current income tax</b>	<b>25,855</b>	<b>21,118</b>
Deferred income tax	(2,852)	(2,648)
<b>Income tax expenses</b>	<b>23,003</b>	<b>18,470</b>

### 13. INCOME TAX EXPENSES (Continued)

- (a) The Company and O-Net Communications Holdings Limited are not subject to profits tax in their jurisdictions.
- (b) The applicable federal income tax rate for O-Net Communications (USA), Inc. is 21%, and the applicable California state corporate income tax rate is 8.84%.
- (c) The applicable tax rate for Hong Kong profits is 16.5%.
- (d) The applicable tax rate for ITF Technologies, Inc. and ArtIC Photonics, Inc. is 26.7% and 26.5% respectively.
- (e) The applicable tax rate for 3SP Technologies ("3SP") is 31%.
- (f) O-Net Shenzhen and O-Net Automation Technology (Shenzhen) Limited applied to the relevant authorities in the PRC and have successfully been granted the qualification as High and New Technology Enterprises in the PRC. They are entitled to a concessionary enterprise income tax rate of 15%.

### 14. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2019 (six-month period ended 30 June 2018: Nil).

## 15. EARNINGS PER SHARE

### (a) Basic

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

	For the six months ended 30 June	
	2019	2018
Profit attributable to equity holders of the Company for the six months ( <i>HKD'000</i> )	83,114	111,854
Weighted average number of ordinary shares in issue ( <i>thousands shares</i> )	801,747	800,189
Basic earnings per share ( <i>HKD per share</i> )	0.10	0.14

### (b) Diluted

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

## 15. EARNINGS PER SHARE (Continued)

### (b) Diluted (Continued)

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 annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the six months ended 30 June	
	2019	2018
Profit attributable to equity holders of the Company for the six months (HKD'000)	83,114	111,854
Weighted average number of ordinary shares in issue (thousands shares)	801,747	800,189
Adjustments for exercise of share options and share awards (thousands shares)	10,134	21,946
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	811,881	822,135
Diluted earnings per share (HKD per share)	0.10	0.14

## 16. CAPITAL COMMITMENTS

	As at	
	30 June 2019 HKD'000	31 December 2018 HKD'000
Capital expenditure contracted for but not provided	79,953	4,167

## 17. RELATED PARTY TRANSACTIONS

### (a) Name and relationship with Related Parties

Name	Relationship
Butterfly Technology (Shenzhen) Ltd., Co. ("Butterfly")	Controlled by key management personnel of the Company

The ultimate controlling party of the Group is considered by the directors of the Company to be the Controlling Shareholders.

### (b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the periods ended 30 June 2019 and 2018:

	For the six months 30 June	
	2019 HKD'000	2018 HKD'000
<b>Sales of goods</b>		
Butterfly	389	712
<b>Rental income received from a related party</b>		
Butterfly	1,057	837

## 17. RELATED PARTY TRANSACTIONS (Continued)

### (c) Key management personnel remuneration

Key management includes directors (executive and non-executive), the company secretary, vice presidents and other key management personnel of O-Net Group. The compensation paid or payable to key management for the employee services is shown as below:

	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
Salaries, bonus and other welfares	18,065	17,827
Pension — defined contribution plans	230	217
Share options/share awards expenses	3,882	3,200
	<b>22,177</b>	<b>21,244</b>

## 18. SHARE-BASED PAYMENTS

### (a) Share Option Schemes

#### (i) Pre-IPO Share Option Scheme

Under the Pre-IPO Share Option Scheme, three types of share options are granted to those grantees with zero exercise price and with graded or non-graded vesting period over 1 to 3 years. As of 30 June 2019, the outstanding number of share options under the pre-IPO share option scheme was 210,600 (30 June 2018: 210,600 options) with the expiry date in July 2020.

As the exercise price of the share options is zero, fair values of the options are determined with reference to the fair value of the Listing Business, which were ascertained by the directors of the Company by using the discounted cash flows method, after applying an appropriate marketability discount. The total expenses for share options granted under the Pre-IPO Share Option Scheme were recognized in the consolidated income statement of the Group.

## 18. SHARE-BASED PAYMENTS (Continued)

### (a) Share Option Schemes (Continued)

#### (ii) Post-IPO Share Option Scheme

Since the year ended 31 December 2011, the Company granted share options to certain employees and directors under the Post-IPO Share Option Scheme adopted by the Group on 9 April 2010 ("Post-IPO Share Option Scheme").

The exercise price was determined by the directors of the Company at the higher of (i) the closing price of the share as stated in the SEHK'S daily quotations sheet on the date of grant; (ii) the average closing price per share as stated in the SEHK'S daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of HKD0.01 per share.

## 18. SHARE-BASED PAYMENTS (Continued)

### (a) Share Option Schemes (Continued)

#### (ii) Post-IPO Share Option Scheme (Continued)

Details of the Post-IPO share options are as follows:

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2019	Exercise price	Vesting date
10 October 2011	Tranches 1, 2, 3, 4 & 5: 800,000  (Total: 4,000,000)	2,000,000	HKD1.870	Tranches 1, 2, 3, 4 & 5 (for a senior management personnel): vesting period commences at the end of the anniversary of the grant date, equally over a period of 5 years.
1 June 2012	Tranche 1: 14,929,000  Tranche 2: 1,360,000  Tranche 3: 4,390,000  Tranche 4: 13,172,000  (Total: 33,851,000)	5,452,000	HKD1.910	Tranche 1 (for certain directors and employees):  (i) 40% of the Replacement Options shall be exercisable from 2 June 2012;  (ii) another 20% of the Replacement Options shall be exercisable from 2 June 2013;  (iii) another 20% of the Replacement Options shall be exercisable from 2 June 2014; and  (iv) the remaining Replacement Options shall be exercisable from 2 June 2015.  Tranche 2 (for certain employees): vesting period commences at 2 June 2012, equally over a period of 4 years.  Tranche 3 (for one director and certain employees): vesting period commences at 2 June 2013, equally over a period of 3 years.  Tranche 4 (for one director and certain employees): vesting period commences at 2 June 2012, equally over a period of 3 years.

## 18. SHARE-BASED PAYMENTS (Continued)

### (a) Share Option Schemes (Continued)

#### (ii) Post-IPO Share Option Scheme (Continued)

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2019	Exercise price	Vesting date
22 April 2013	Tranche 1: 200,000 Tranche 2: 2,350,000 Tranche 3: 350,000 (Total: 2,900,000)	300,000	HKD1.680	Tranche 1 (for certain employees): vesting period commences at 12 February 2014, equally over a period of 5 years.  Tranche 2 (for certain employees): vesting period commences at 3 March 2014, equally over a period of 5 years.  Tranche 3 (for certain employees): vesting period commences at 7 April 2014, equally over a period of 5 years.
25 September 2013	Tranches 1, 2, 3, 4 & 5: 70,000 (Total: 350,000)	140,000	HKD1.652	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 13 August 2014, equally over a period of 5 years.
16 October 2013	Tranches 1, 2, 3 & 4: 1,000,000 (Total: 4,000,000)	1,800,000	HKD1.628	Tranches 1, 2, 3 & 4 (for certain employees): vesting period commences at 14 October 2014, equally over a period of 4 years.
8 November 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000 (Total: 10,300,000)	2,234,000	HKD1.484	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 8 November 2014, equally over a period of 5 years.
9 April 2014	Tranches 1, 2, 3, 4 & 5: 374,000 (Total: 1,870,000)	694,000	HKD2.400	Tranches 1, 2, 3, 4 & 5 (for a director and certain employees): vesting period commences at 28 March 2015, equally over a period of 5 years.
		12,620,000		

All the share options granted above will lapse on 9 April 2020.

## 18. SHARE-BASED PAYMENTS (Continued)

### (a) Share Option Schemes (Continued)

#### (iii) Movements in the number of Post-IPO share options outstanding

	For the six months ended 30 June	
	2019 HKD'000	2018 HKD'000
At 1 January	14,545	19,044
Granted	—	—
Forfeited	(20)	(500)
Exercised	(1,905)	(2,653)
At 30 June	12,620	15,891

As at 30 June 2019, out of the 12,620,000 outstanding share options (2018: 15,891,000 share options), 12,620,000 share options (2018: 13,891,000 share options) were exercisable. 1,905,000 share options were exercised in the first half of 2019 (six-month period ended 2018: 2,653,000 share options).

### (b) Restricted Share Award Schemes

On 9 May 2014, the Company adopted a restricted 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.

During the six months ended 30 June 2019, no restricted shares (six-month period ended 30 June 2018: Nil) were purchased by the trustee from the market and no new shares (six-month period ended 30 June 2018: Nil) were issued by the Company for the purpose of the Award Scheme.

## 19. Business Combinations

The Group entered into the sale and purchase agreement with Advance Photonics Investments Limited ("API"), the sole shareholder of 3SP, on 21 April 2017, and the supplementary agreement dated 18 July 2017, pursuant to which the Group has conditionally agreed to purchase and API has conditionally agreed to sell 3SP, representing 100% issued share capital of 3SP.

On 19 March 2019, the Group completed the acquisition of 3SP by acquiring the 100% equity interest of API through the subscription of 9,999 API's ordinary shares (the "Subscription Shares") by entering into a supplemental agreement (the "Supplemental Agreement") with Pha Nga Bay Limited (the "Existing Shareholder"), the sole shareholder of API, and API, pursuant to which (a) the Group agreed to subscribe for the Subscription Shares; (b) the Group agreed to advance to API the shareholder's loan of USD13,500,000 for the repayment of amount due from API to the Existing Shareholder (the "Shareholder's Loan"); and (c) the Existing Shareholder agreed to convert 1 ordinary share into 1 non-voting deferred share (the "Deferred Share Conversion"). API and its subsidiary, 3SP (collectively "API Group"), are principally engaged in research, development, manufacturing and supply of innovative chips and laser products for telecommunications and data communications. Completion of the acquisition took place immediately upon the signing of the Supplemental Agreement.

The total consideration comprises (a) HKD9,999 for the subscription of Subscription Shares; (b) USD13,500,000 (equivalent to HKD105,300,000) for the provision of the Shareholder's Loan; and (c) USD6,382,718.08 (equivalent to HKD49,785,201) for the Deferred Share Conversion.

## 19. Business Combinations (Continued)

The following table summarises the consideration paid for API Group, the fair value of assets acquired, liabilities assumed at the acquisition date.

<b>Consideration</b>	<i>HKD'000</i>
— Cash	155,095
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Total consideration	155,095
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<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Property, plant and equipment	80,784
Other non-current assets	11,378
Right-of-use assets	39,028
Intangible assets	71,130
Financial assets at fair value through other comprehensive income	11,127
Inventories	54,173
Trade and other receivables	49,579
Cash and cash equivalents	12,561
Deferred tax liabilities	(16,148)
Trade and other payables	(213,440)
Lease liabilities	(39,846)
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Total identifiable net assets	60,326
Goodwill	94,769
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Total consideration	155,095
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Included in the goodwill of HKD94,769,000 recognised above was the value of expected synergies arising from combining operations of the Group and API Group and assembled workforce of API Group. None of the goodwill recognised was expected to be deductible for income tax purposes.

Acquisition-related costs of HKD125,000 have been charged to administrative expenses in the unaudited condensed consolidated statement of profit or loss in the first half of 2019.

## 19. Business Combinations (Continued)

The revenue included in the unaudited condensed consolidated statement of profit or loss since date of acquisition contributed by API Group was HKD24,037,000. API Group also incurred loss of HKD1,104,000 over the same period.

Had API Group been consolidated from 1 January 2019, the unaudited condensed consolidated statement of profit or loss would show proforma revenue of HKD1,429,693,000 and profit of HKD68,360,000.

## 20. Subsequent event

On 15 July 2019, the Board resolved to allot and issue 18,881,000 new shares to the trustee under the restricted share award scheme of the Company adopted on 9 May 2014 in order to grant awards to selected grantees. The Issue of New Shares completed on 1 August 2019. Details of the Issue of New Shares are set out in the announcement made by the Company dated 15 July 2019.