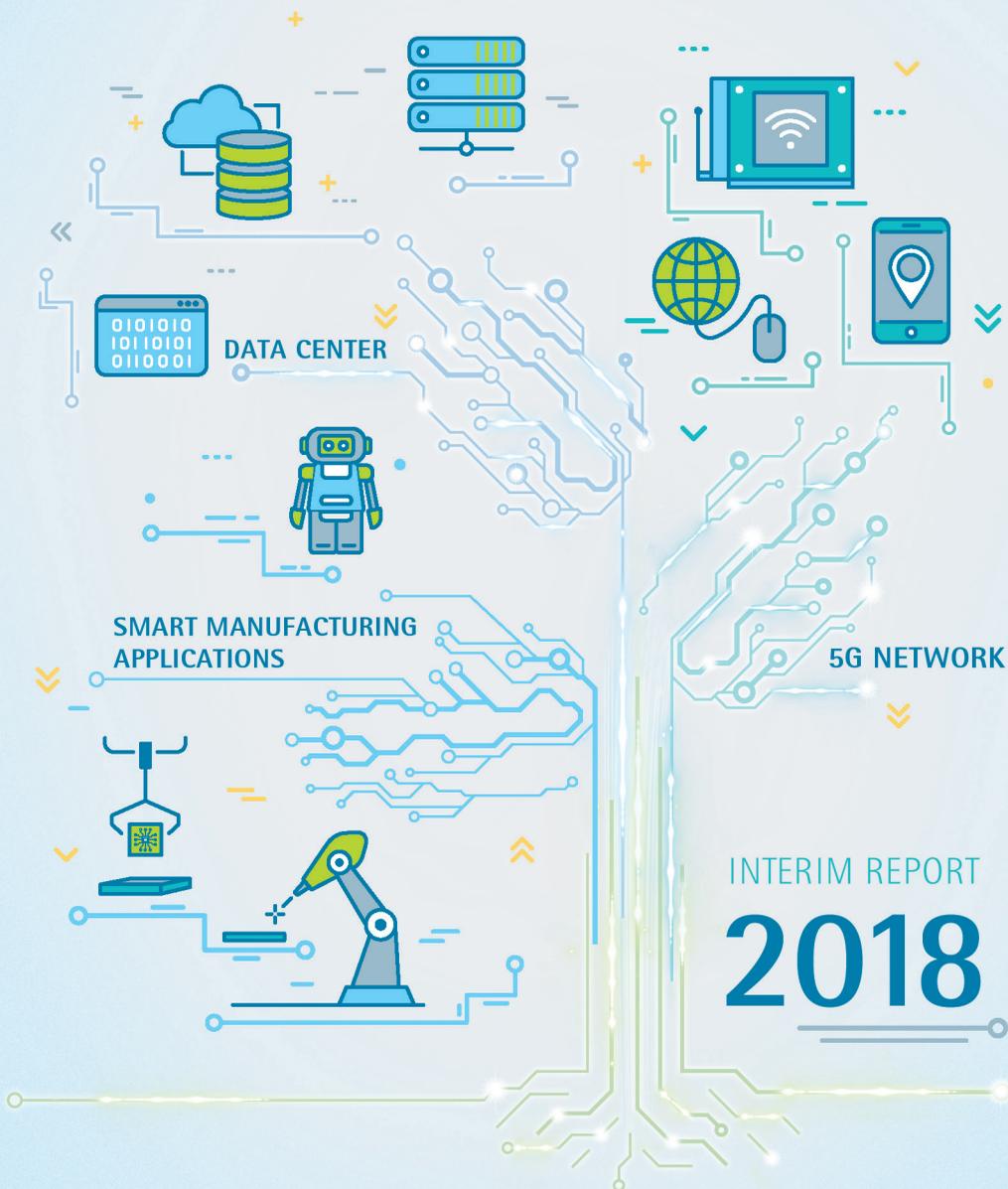


# O-Net

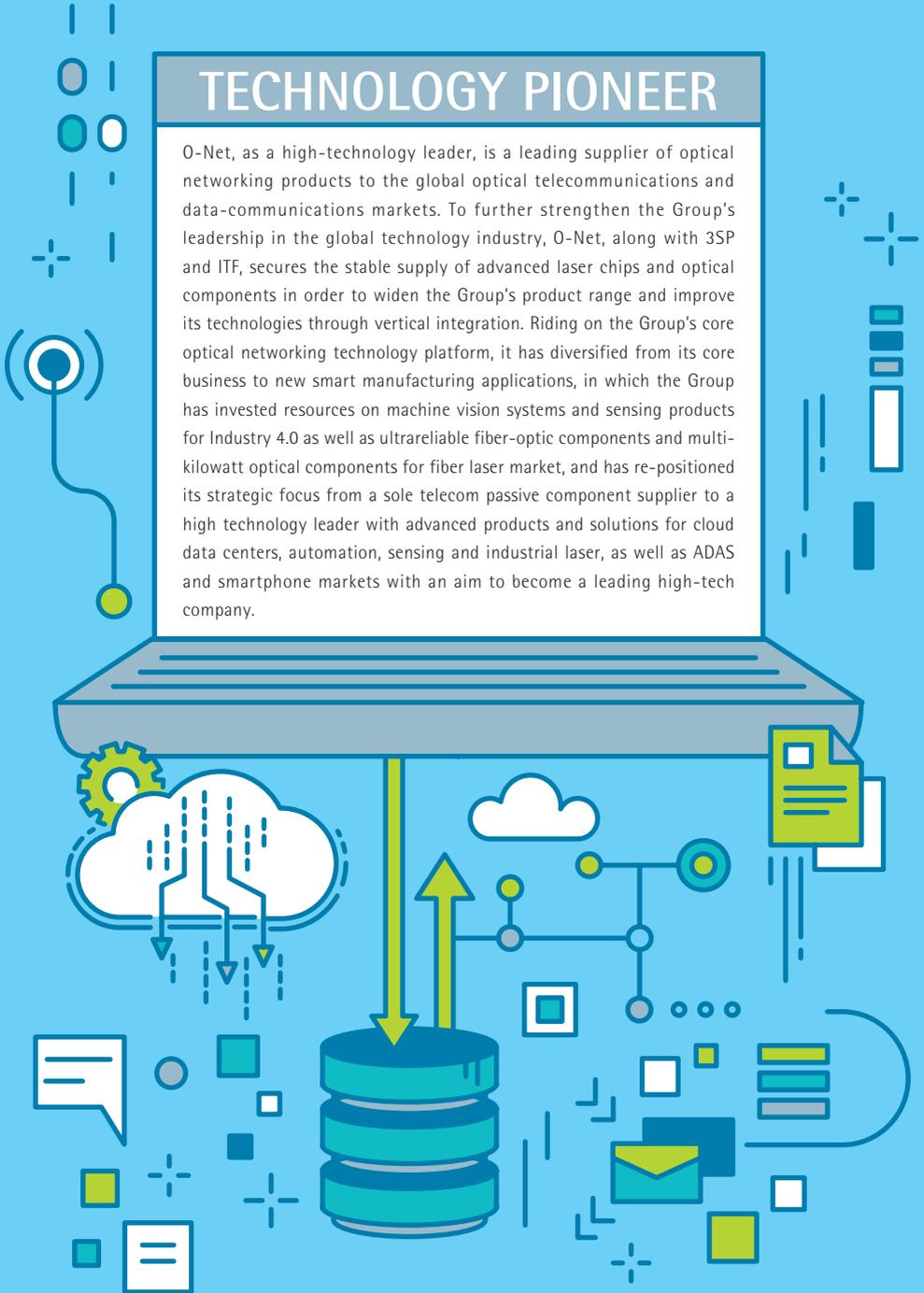
**Technologies (Group) Limited**

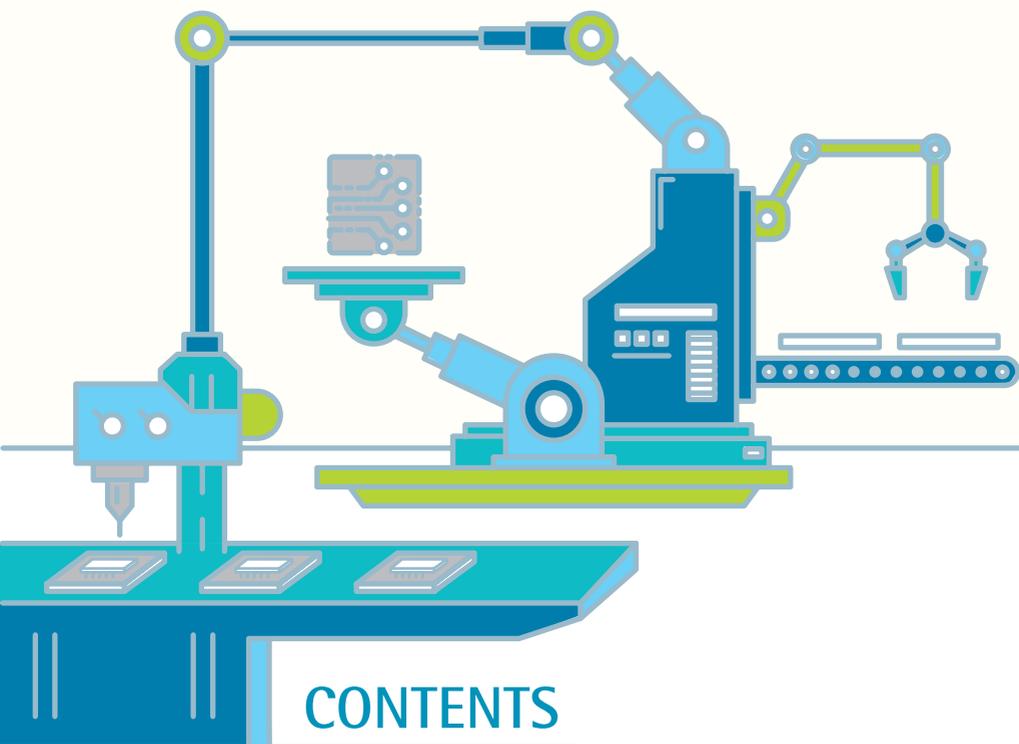
(Incorporated in the Cayman Islands with limited liability) (Stock Code: 877)



# 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 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 multi-kilowatt 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

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Pingshan New District  
Shenzhen  
China  
Postal Code: 518118

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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 Xiping  
Mr. Ong Chor Wei  
Mr. Zhao Wei

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

Mr. Deng Xiping  
*(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. Man Kwok Leung (CPA, FCCA, FRM, ACS)  
Mr. Zhou Yu

## AUTHORIZED REPRESENTATIVES

Mr. Na Qinglin  
Mr. Man Kwok Leung (CPA, FCCA, FRM, ACS)

## COMPANY SECRETARY

Mr. Man Kwok Leung (CPA, FCCA, FRM, ACS)

## INVESTOR RELATIONS CONTACT

Mr. Man Kwok Leung (CPA, FCCA, FRM, ACS)  
Vice President of Finance  
Tel: (852) 2307 4100  
Fax: (852) 2307 4300  
E-mail: 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 Merchants Bank  
Bank of China  
China Bohai 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*  
801,125,240 shares (as at this report approval date)

*Board Lot Size*  
1,000 shares

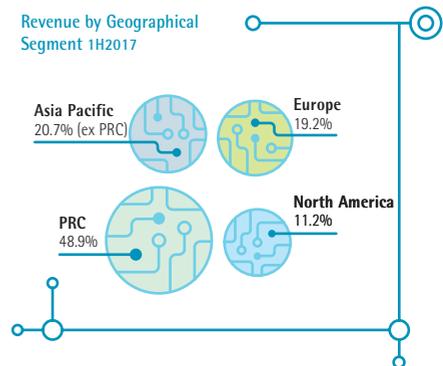
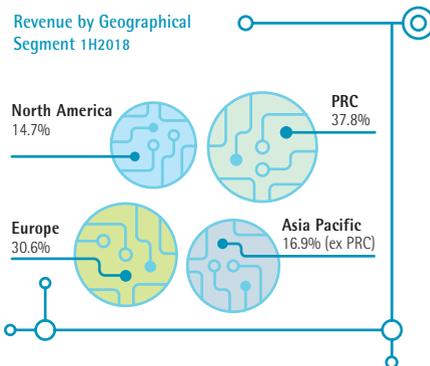
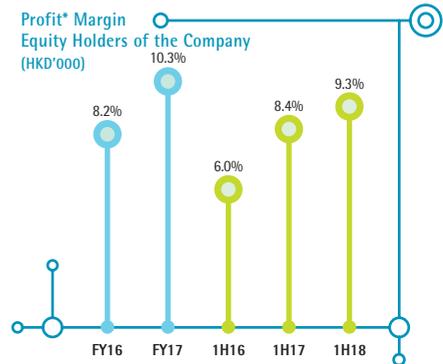
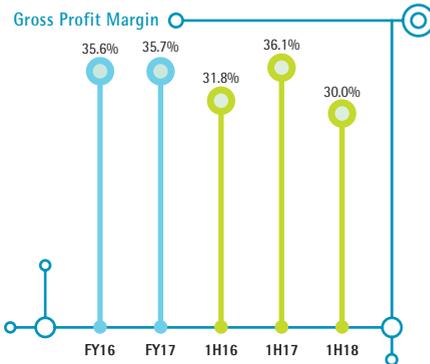
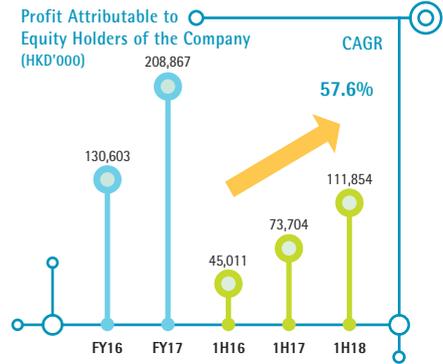
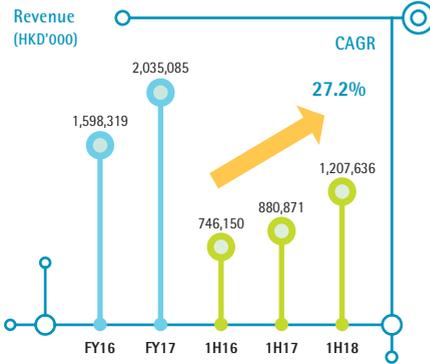
## CAYMAN ISLANDS SHARE REGISTRAR

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



\* Profit means profit attributable to equity holders of the Company.



|   | <b>For the<br/>Six Months<br/>Ended<br/>30 June<br/>2018<br/>(HKD'million)</b> | For the<br>Six Months<br>Ended<br>30 June<br>2017<br>(HKD'million) | Changes<br>%/ppt |
|---|--|--|------------------|
| <b>Consolidated Revenue</b>   | <b>1,207.6</b>   | 880.9  | 37.1             |
| Including:  |  |  |                  |
| Optical Networking  | <b>985.8</b>   | 725.0  | 36.0             |
| Smart Manufacturing Applications  | <b>160.0</b>   | 98.1   | 63.1             |
| <b>Consolidated Gross Profit</b>  | <b>362.3</b>   | 317.8  | 14.0             |
| Including:  |  |  |                  |
| Gross Profit Attributable to Optical Networking<br>and Smart Manufacturing Applications | <b>361.0</b>   | 293.7  | 22.9             |
| <b>Operating Expenses to Revenue %</b>  | <b>23.4</b>  | 26.7   | -3.3 ppt         |
| <b>Profit Before Income Tax</b>   | <b>127.9</b>   | 88.5   | 44.5             |
| <b>Profit Attributable to Equity Holders of<br/>the Company</b>                         | <b>111.9</b>   | 73.7   | 51.8             |
| <b>Non-GAAP Net Profit Attributable to<br/>Equity Holders of the Company</b>            | <b>132.6</b>   | 82.9   | 60.0             |
| <b>EBITDA</b>   | <b>195.6</b>   | 124.7  | 56.9             |
| <b>Operating Cash Flow</b>  | <b>262.8</b>   | 36.0   | 630.0            |
| <b>Capital Expenditure</b>  | <b>98.5</b>  | 107.7  | -8.5             |
|   | <b>As at<br/>30 June<br/>2018<br/>(HKD'million)</b>                            | As at<br>31 December<br>2017<br>(HKD'million)                      | Changes<br>%/ppt |
| <b>Net Debt</b>   | <b>67.7</b>  | 245.6  | -72.4            |
| <b>Net Gearing Ratio %</b>  | <b>3.2</b>   | 12.1   | -8.9 ppt         |

#### Other Items to Consider in Comparison:

Fair value gain on financial assets at fair value through profit or loss was HKD44.3 million (30 June 2017: Nil) and provision for write-down of inventories was HKD3.5 million (30 June 2017: reversal of write-down of inventories of HKD7.1 million).



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Highlights

- *Optical Networking:*
  - The revenue growth of 36% outpaced the market during the first half of 2018;
  - Strong growth of Data Center Interconnect ("DCI") market continued to drive the growth;
  - Winning a bigger share of business with traditional customers and with a few new ones;
  - Sales revenue of active components grew significantly by 75% to approximately HKD100 million; and
  - Qualification of products by customers for 5G network deployment is in the process, indicating an additional revenue stream in the near future as upcoming 5G network deployment will further accelerate demand for optical networking products and drive their upgrade cycle.
- *Smart Manufacturing Applications:*
  - Promising growth of revenue of 63.1%, with a revenue contribution of 13.2% i.e., up by 2.1 percentage points, during the first half of 2018;
  - Capitalizing on the R&D capabilities of ITF Technologies Inc. ("ITF"), the synergies after the acquisition, and the Group's commitment by offering a broad range of unique single-mode, multi-kilowatt fiber-based components and systems necessary for the fiber lasers, the Industrial Laser Business continued to report a promising revenue growth rate of 54.7%; and
  - Targeting to be a leading domestic machine vision solutions provider by providing more automation solutions, such as offering advanced machine vision systems and sensing products, the machine vision business grew significantly at 145.0% as compared with the corresponding period last year.

The Group has continued to bolster its position as a leader in the provision of high-technology products and solutions while at the same time further expanded from its origin as a supplier of passive optical networking products.



In addition to launching high-speed optical transceivers for addressing the needs of both intra- and inter-data center connections, the Group has also made significant strides in other emerging fast-growth sectors such as the design and manufacturing of laser chips for pump lasers, high-speed optical transceivers and Light Detection And Ranging ("LiDAR") solutions through the acquisition of 3SP Technologies S.A.S.\* ("3SP"), a specialist in indium phosphide ("InP") and gallium arsenide ("GaAs") based laser chips. The Group has also advanced in the design and manufacture of high-reliability optical components and modules for the telecommunications market and high power products for the industrial laser and LiDAR market through the acquisition of ITF.

The "Diversify for Growth" strategy rolled out by the management back in 2012 has proven to be the catalyst for growth of various new businesses for the Group. This strategy has led to (i) the launching of machine vision systems and sensors; (ii) the offering of advanced industrial laser products; and (iii) the introduction of automation solutions for the E-cigarette industry. All of these products and solutions, as the building blocks of its smart manufacturing applications, have performed exceptionally well over the past few years, hence laying the groundwork for further penetration across a wider swath of Industry 4.0 applications. In addition, having leveraged the cutting edge technology platforms of O-Net, 3SP and ITF, the Group has tapped the Advanced Driver Assistance Systems ("ADAS"), hence driving long-term growth riding the immense potential of this market.

Apart from the optical networking market for telecommunications applications, its traditional business, the Group also continues to focus on other markets, including: (i) the cloud data center infrastructure and DCI market; (ii) numerous automation-related businesses to capture Industry 4.0 opportunities; (iii) the multi-kilowatt fiber laser industry; and (iv) LiDAR for emerging ADAS applications.

Consistent with its strategic direction and overall goal to further distinguish itself as a leader in the global technology industry, O-Net will continue to seek acquisition opportunities to realize synergies with its optical networking and smart manufacturing applications businesses for accelerating business growth and expanding the scale of its business.

\* As at the date of this report, the acquisition of 3SP has not yet been completed.



## INDUSTRY AND BUSINESS REVIEW

### Optical Networking Businesses

Highlights: Revenue of HKD985.8 million, up by 36.0%

Revenue contribution of 81.6%, i.e., -0.7 percentage points but still standing at more than 80%

During the first half of 2018, the revenue of optical networking businesses surged 36.0% to HKD985.8 million, accounting for a revenue share of the Group of more than 80%, far outstripping the market growth rate (according to Ovum, the expected global optical component market revenue compound annual growth rate ("CAGR") is 7% during 2016 to 2022 and the revenue is expected to reach USD14.1 billion by 2022, while the telecom and datacom markets had a CAGR of 5% to 6% and 9% respectively). The strong revenue growth is mainly driven by the demand from the strong growing DCI market, and our success in winning a bigger share of business with traditional customers and with a few new ones.

### *Telecommunications Business*

The global optical components market for telecommunications applications has experienced contraction since 2017. Nevertheless, sales of optics to telecoms segments in North America and Europe has remained steady. It is expected that the Group can seize a greater market share from several western corporate customers during 2018.

Riding on many years of efforts in winning a bigger share of business with traditional customers and with a few new ones, our sales to the telecom market grew during the first half of 2018, principally driven by key products including EDFAs<sup>1</sup>, FSI<sup>2</sup>, linecards and WDM<sup>3</sup>. Sales of new 100GbE products such as 100GbE mini ICR<sup>4</sup>, Raman Amplifiers, linecards, TF<sup>5</sup> and VOA<sup>6</sup> are on the rise, as the installation of 100GbE products is expanding rapidly throughout the metropolitan network in the telecommunications market.

1. EDFA: Erbium Doped Fiber Amplifier, hereinafter inclusive
2. FSI: Fiber-optic Sensor Interrogation, hereinafter inclusive
3. WDM: Wavelength Division Multiplexing, hereinafter inclusive
4. ICR: Intradyne Coherent Receiver, hereinafter inclusive
5. TF: Tunable Filter, hereinafter inclusive
6. VOA: Variable Optical Attenuator, hereinafter inclusive



### *Upcoming 5G Network Deployment*

In December 2017, the 3rd Generation Partnership Project, a collaboration between groups of telecommunications standards associations, successfully completed the first implementable 5G new ratio specification, which signifies the beginning of the next wave of global networking spending. Global network operators, including Chinese operators, are accelerating their deployment plans by implementation of more field trials of 5G networks, with commercial deployment targets in late 2019 to 2020.

The upcoming 5G network rollout definitely presents a tremendous opportunity to the Group's optical networking businesses. According to Infostone Communications Consultant, the number of Chinese base stations in the 5G era compared to the 4G era is estimated to be 1.5-3 times larger, while the number of optical modules in each base station in the 5G era vs the 4G era is likely to be 2-3 times larger. Demand for optical components like FSI, WDM, TF, CWDM/WDM devices and ROADM<sup>1</sup> system is very likely to sharply increase in the 5G era. To capitalize on opportunities in the next wave of global networking spending, qualification of products by customers for 5G network deployment is already in process, indicating an additional revenue stream in the near future.

### *Data-communications Business*

Data-communications growth has been spurred by the upgrade of data centers by global web-scale operators from 40GbE to 100GbE due to demand for higher speed cloud services. In addition, global data center operators continue to announce new data center builds, which has driven the Group's sales in the datacom market during the first half of 2018.

To capture the opportunities in the datacom market, the Group has adopted a strategy of establishing a world-class technology and product R&D team in Silicon Valley focusing on high-end transceiver development and selective offerings of transceivers based on vertical integration and unique technologies. Its objective is to become a market leader of passive components for transceiver markets including glass blocks and isolators, and developing active components such as 25G+ VCSEL<sup>2</sup>, EML<sup>3</sup>-based 10X10 and future 100G solutions and VCSEL-based 100G AOC<sup>4</sup> with an outstanding transmission distance.

According to LightCounting, sales for 400GbE optics will expand the cloud market segment (including cloud in China) from about USD2 billion in 2017 at a CAGR of 20% to more than USD6 billion in 2023. The Group's advancement of active components offerings continues with the launch of a high-speed 400GbE QSFP56-DD<sup>5</sup> (based on 8x50GbE PAM4 VCSEL that meets specifications for QSFP56-DD multi-source protocol), which can reduce data center operating costs and enhance high-speed data transmission efficiency to better suit the requirements of mega-scale cloud data centers.

1. ROADM: Reconfigurable Optical Add/Drop Multiplexers, hereinafter inclusive
2. VCSEL: Vertical-Cavity Surface-Emitting Laser, hereinafter inclusive
3. EML: Electro-absorption Modulated Lasers, hereinafter inclusive
4. AOC: Active Optical Cables, hereinafter inclusive
5. QSFP56-DD: Quad Small Form-factor Pluggable56-DD, hereinafter

### *Strong Growth of DCI market*

DCI refers to a technology used to connect and enable networking between two or more different data centers, enabling different data centers to share resources, pass workloads, and work together. The migration toward cloud-based services has increased the demand for data centers which is expected to boost the growth of the DCI market.

In fact, DCI continues to be a major driver for the growth of optical networks and components market (DCI revenue segment is projected to grow at a 20.6% CAGR from 2016 to 2021 according to ACG research), attributable to (i) greater cloud-based services application adoption; (ii) ongoing data center construction with new technology upgrade cycles coming; and (iii) demand for interconnecting as a result of the growing number of geographically dispersed data centers.

According to Ovum, the DCI market was valued at USD3.2 billion in 2017, shared by the market leaders including Ciena, Huawei, Nokia, Infinera, Cisco etc., while North America is by far the largest market geographically. Driven by the strong growth of demand from the DCI market, and leveraging its industry leadership in products including EDFAs, Raman, ICRs and TF, the Group has been experiencing strong growth in demand for these key optical networking products.

### *Prospects*

Over the past 18 years, O-Net has been focusing on the opto-electronic businesses where it possesses clear competitive advantages established in (i) the high-power optronic products such as EDFA, Raman amplifiers and line cards; (ii) passive component design and packaging including WDM, VOA, TF, etc. and free space isolators; (iii) the micro-optic Etalon-based optical networking products such as interleavers and wavelockers; and (iv) the active component products including AOCs, QSFP form factor products, and related TOSA<sup>1</sup> and ROSA<sup>2</sup> products including EML and VCSEL.

Underpinned by innovation, the Group remains highly optimistic that its optical networking businesses can achieve even greater inroads in the optical networking market. The telecommunications market is expected to advance further due to the beginning of the next wave of global networking spending for upcoming 5G network deployment. On the other hand, the upslope demand for web-scale data centers and data center upgrades, as well as the strong growth in the DCI market, are expected to be the catalysts of growth in the data-communications market.

With strong growth forecasted for the telecommunications and data-communications markets, the Group has already taken measures to bolster its position in individual markets by further introduction of new iterations of advanced products to the market.

1. TOSA: Transmitter Optical Sub-assembly, hereinafter inclusive
2. ROSA: Receiver Optical Sub-Assembly, hereinafter inclusive



## Smart Manufacturing Applications Businesses

Highlights: Aggregate revenue of HKD160.0 million, up by 63.1%

Revenue contribution of 13.2%, i.e. +2.1 percentage points, gaining additional revenue share

With years of efforts invested by the Group, its advanced technological platform enables it to deliver products and solutions to customers for application in different industries, including (i) the industrial laser business; (ii) the machine vision business; and (iii) the automation solutions business for E-cigarettes, as well as other smart manufacturing applications.

### *Industrial Laser Business*

Revenue of HKD84.3 million, up by 54.7%

Since 2015, the Group has successfully tapped the industrial laser industry through the acquisition of ITF, 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, which has addressed several applications for industrial fiber lasers across the different power and wavelength spectrums, including macro/micro material processing, marking and engraving, and welding applications since 2006.

Capitalizing on ITF's R&D capabilities and the synergies generated after the acquisition, the Group's industrial laser business was able to outpace the market, reporting a CAGR in revenue of 43% from 2015 to 2017, and continued to deliver a promising revenue growth of 54.7% year-on-year to HKD84.3 million during the first half of 2018, which outperformed the overall growth rate of the fiber laser market which had a CAGR of 12% from 2016 to 2022 (Data source: Allied Market Research), thus reaffirming this segment's status as a growth driver for the Group.

Furthermore, the Group's industrial laser business is expanding product offerings in multi-kilowatt applications by offering unique single-mode kilowatt fiber laser products with better beam quality such as a class-leading 2 kilowatt laser engines and 6 kilowatt laser combiners, as well as discrete optical components each capable of handling 3 kilowatts of power, in order to capture opportunities in the growing demand of multi-kilowatt high-power fiber lasers, particularly in the China market.

### *Prospects*

In 2017, the global industrial laser market recorded growth of 26% to USD4.3 billion with industrial fiber lasers leading the way, expanding 34% to USD2.0 billion (Data source: ResearchAndMarkets.com, 中國產業信息網 [www.chyxx.com](http://www.chyxx.com)). The global fiber laser market is expected to reach USD3.1 billion by 2022 (Data source: Allied Market Research). Fiber lasers have become the first choice for the laser processing industry. In welding systems, 60% of laser welding equipment have incorporated fiber lasers.



To address this market, the Group's industrial laser business will continue to be uniquely positioned by offering a broad range of fiber-based components and systems necessary, both for high power fiber laser and lower-power applications. Coupled with the ongoing development and the introduction of additional components and modules for multi-kilowatt high-power fiber lasers, the industrial laser business is positioning itself as a key enabler in the transition of materials processing markets for the fiber laser, offering additional outlets for our broad base of discrete optical components, as well as mid- to high-power fiber laser systems. On this front, the industrial laser business is expected to continue to outpace the market growth rate.

### *Machine Vision Business*

Revenue of HKD24.5 million, up by 145.0%

Against the backdrop of Industry 4.0, the machine vision industry in China has grown by leaps and bounds over the past years and thus, China has become the world's third-largest machine vision market following the United States and Japan. In 2017, the Chinese machine vision industry was worth RMB3.2 billion, presenting a year-on-year surge of 23.1%. The size of the Chinese market is expected to maintain a CAGR of 20.0% from 2018 to 2022 (Data source: ResearchAndMarkets.com).

In FY2015, the Group has rolled out its first machine vision system and has continued to invest and expand its product portfolio to cater to strong demand. Consequently, sale of this product has achieved impressive rapid growth since FY2015. During the first half of 2018, the machine vision business surged 145.0% year-on-year, contributing HKD24.5 million in revenue, thus reaffirming its status as a growth driver.

### *Prospects*

A machine vision system simulates human vision with computers, collecting, processing and analyzing information from images. As industrial production becomes increasingly complex, more and more micromachining processes have emerged. To ensure precision in production, machine vision has been widely applied in the inspection, measurement and insertion of parts and automation between different processes.

In 2017, the machine vision market accounted for a minor part of the overall industrial automation equipment market in China with an estimated value of RMB300 billion (Data source: CICC Research). As a large number of local Chinese manufacturers continue to operate facilities from past industrial stages, the window of opportunity is immense.

The Group's objective is to become a leading domestic machine vision solution provider, and therefore it looks to build on its success by providing automation solutions, such as machine vision systems and sensing products. The development of such products has begun in FY2013, with products actually launched in FY2015, and it is continuing to expand through a new series of products to tap the opportunities in the rapidly growing domestic machine vision market.



### *Automation Solutions for E-cigarettes Business*

Revenue of HKD39.9 million, up by 47.2%

The global E-cigarette market size is estimated to be around USD15 billion in 2017, with a CAGR of 27.3% during 2018-2023 (Data source: Prescient & Strategic Intelligence). The search for alternatives to tobacco cigarettes due to rising health awareness among consumers is fueling the growth of the market.

As a leading supplier of the E-cigarette industry by virtue of supplying heating coils and automated E-liquid filling and assembly machines, the Group has continued to provide a variety of automation solutions for the E-cigarette manufacturing industry. Capitalizing on strong demand and the Group's longstanding relationships with several major E-cigarette makers, the Group's E-cigarette business has continued to record a strong year-on-year growth of 47.2% and generated revenue of HKD39.9 million during the first half of 2018.

### *Prospects*

Global tobacco companies are shifting their focus from traditional tobacco products to next-generation vaping devices because they are being adopted by consumers as an alternative to tobacco cigarettes. With focus on replacing traditional tobacco cigarettes with safe vaping technology, the E-cigarette market is expected to witness significant growth in the near future. The Group's E-cigarette business is expected to keep its growth momentum and enjoy a multi-year high growth cycle of the industry.

### *Other Smart Manufacturing Applications Business*

To capitalize on the growing LiDAR market, the Group has established a production line for the assembly of laser source modules, and its optical components for the laser source modules of LiDAR, which have also been qualified by a global technology giant, and have commenced shipment and generated revenue starting from the second half of 2016. Furthermore, it is pursuing cooperative ties with other LiDAR players and securing additional customers.

All of these efforts have further bolstered the Group's position in the market and generated revenue of HKD11.3 million during the first half of 2018, surging 73.8% over the preceding year. The Group is confident that this application can serve as an additional revenue stream that can drive its overall revenue growth in the future.

## GOING FORWARD

The Group is confident that it will make further advances in all of its businesses.

- In respect of the optical networking business, it will continue to introduce the next generation of innovative products to seize opportunities from the rapidly evolving optical components market, driven by the growth engines including demand from the cloud data center and DCI, and upcoming deployment of 5G wireless communications.
- As for the smart manufacturing applications, the Group envisages its various sectors will grow impressively to become significant businesses, driven by the advent of its core technologies. The Group is more optimistic about developments on the machine vision systems and fiber laser systems fronts, most notably launching our state-of-art machine vision systems and our unique single-mode multi-kilowatt fiber laser products with better beam quality, as each of these businesses will serve as catalysts for its progress and growth.

While the Group has made significant progress in all of its businesses, 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.

## FINANCIAL REVIEW

### Revenue

For the first half of 2018, the Group reported revenue of HKD1,207.6 million, representing an increase of HKD326.7 million, or 37.1%, compared with that of HKD880.9 million in the first half of 2017. The increase in revenue in the first half of 2018 was primarily attributable to the growth in revenue of optical networking businesses and smart manufacturing applications businesses.

### Optical Networking Businesses

The optical networking businesses recorded revenue of HKD985.8 million in the first half of 2018, representing an increase of HKD260.8 million, or 36.0% as compared with that of HKD725.0 million in the first half of 2017. The increase was primarily attributable to the growing demand for the optical networking products driven by the combined effect of (i) strong growth of DCI market continued to drive the growth; and (ii) winning bigger shares of business with traditional customers and with a few new ones.

### Smart Manufacturing Applications Businesses

The smart manufacturing applications businesses recorded revenue of HKD160.0 million in the first half of 2018, representing an increase of HKD61.9 million, or 63.1% as compared with that of HKD98.1 million in the first half of 2017, attributable to the significant growth of the businesses within this segment.



### *Machine Vision Business*

Revenue of HKD24.5 million was recorded in the first half of 2018, representing an increase of HKD14.5 million, or 145.0% as compared with that of HKD10.0 million in the first half of 2017. The rise in revenue in the first half of 2018 was primarily attributable to bolstered sale efforts by the Group.

### *Automation Solutions for E-cigarette Business*

In this segment, revenue of HKD39.9 million was recorded in the first half of 2018, representing an increase of HKD12.8 million, or 47.2% as compared with that of HKD27.1 million in the first half of 2017. The increase in revenue in the first half of 2018 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 and modules for the industrial laser application, such as fiber lasers. In the first half of 2018, revenue from the industrial laser business of HKD84.3 million was recorded, representing an increase of HKD29.8 million, or 54.7% as compared with that of HKD54.5 million in the first half of 2017. The revenue rise was primarily due to the components sales for kilowatt-class fiber lasers, as well as the rapid expansion in sales of higher-value added high-power laser modules – laser engines and laser combiners.

## Gross Profit

The gross profit in the first half of 2018 was HKD362.3 million, representing an increase of HKD44.5 million, or 14.0%, from the gross profit of HKD317.8 million in the first half of 2017. The higher gross profit was primarily contributed by optical networking businesses and smart manufacturing applications businesses of the Group.

## Other Gains

Other gains in the first half of 2018 increased by HKD40.8 million to HKD60.5 million, from HKD19.7 million in the first half of 2017, which was primarily due to fair value gain on financial assets at fair value through profit or loss attributable to the public listing of an investment.

## Selling and Marketing Costs

Selling and marketing costs of HKD45.3 million in the first half of 2018 rose by HKD10.7 million, or 30.9%, compared with HKD34.6 million in the first half of 2017. The increase in selling and marketing costs in the first half of 2018 was primarily attributable to the increase of the salary costs. However, selling and marketing costs as a percentage of revenue decreased to 3.8% in the first half of 2018 as compared with 3.9% in the first half of 2017. The reason was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.



## Research and Development Expenses

Research and development ("R&D") expenses in the first half of 2018 were HKD131.3 million, HKD15.9 million or 13.8% higher compared with HKD115.4 million in the first half of 2017. The rise in R&D expenses was mainly due to the increase in salary costs for the R&D engineers. However, R&D expenses as a percentage of revenue decreased to 10.9% in the first half of 2018 as compared with 13.1% in the first half of 2017. This was mainly due to the increase in revenue outweighing the increase in R&D expenses.

## Administrative Expenses

Administrative expenses in the first half of 2018 were HKD104.7 million, which was 19.3 million or 22.6% higher, compared with HKD85.4 million in the first half of 2017. The rising administrative expenses in the first half of 2018 was primarily attributable to (i) the increase in staff salaries and staff welfare benefits; and (ii) rising overall administrative expenses. Administrative expenses as a percentage of revenue decreased to 8.7% in the first half of 2018 as compared with 9.7% in the first half of 2017. The decrease was mainly due to the increase in revenue outweighing the increase in administrative expenses.

## Finance Income/Expenses

Finance income in the first half of 2018 amounted to HKD7.9 million, representing an increase of HKD3.5 million, compared with HKD4.4 million in the first half of 2017. The increase in finance income was primarily due to the net effect of (i) the impact of the stronger USD (for entities within the Group using RMB as functional currency) on net effect of sales transactions and balances, the foreign exchange gain was HKD4.4 million in the first half of 2018 as compared with the foreign exchange loss of HKD6.3 million in the first half of 2017; and (ii) the decrease in interest income of HKD0.9 million.

Finance expense in the first half of 2018 amounted to HKD20.8 million, representing an increase of HKD2.8 million, or 15.6% as compared to HKD18.0 million in the first half of 2017. The increase in finance expenses was primarily due to (i) the increase in interest rate of bank borrowings due to decrease of pledged bank deposits for bank borrowings; and (ii) the impact of foreign exchange as described above.

## 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 2018 amounted to HKD18.5 million, representing an increase of HKD1.2 million or 6.9% from the income tax expenses of HKD17.3 million in the first half of 2017. The rise in income tax expenses was due to the increase in profit before tax in the first half of 2018.



Major operating business sectors<sup>#</sup> – Optical Networking and Smart Manufacturing Applications

|                                   | Six months ended 30 June   |                            | Changes<br>%/ppt |
|-----------------------------------|----------------------------|----------------------------|------------------|
|                                   | 2018<br><i>HKD'million</i> | 2017<br><i>HKD'million</i> |                  |
| Revenue                           | 1,145.8                    | 823.1                      | 39.2             |
| Cost of sales                     | (784.8)                    | (529.4)                    | 48.2             |
| Gross profit                      | 361.0                      | 293.7                      | 22.9             |
| Other gains – net*                | 16.2                       | 19.7                       | -17.8            |
| Selling and marketing costs       | (43.2)                     | (32.7)                     | 32.1             |
| Research and development expenses | (129.7)                    | (107.4)                    | 20.8             |
| Administrative expenses           | (103.0)                    | (85.4)                     | 20.6             |
| Operating profit                  | 101.3                      | 87.9                       | 15.2             |
| Gross profit margin (%)           | 31.5                       | 35.7                       | -4.2 ppt         |
| Operating profit margin (%)       | 8.8                        | 10.7                       | -1.9 ppt         |

Note: Calculation and disclosure format of operating profit are the same as the 2017 annual report of the Company

# Excluding non-major operating business sector – consumer electronics, only including major operating business sectors - optical networking and smart manufacturing applications

\* Excluding fair value gain on financial assets at fair value through profit or loss



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

|   | For the period ended<br>30 June |                 |
|---|---------------------------------|-----------------|
|   | 2018<br>HKD'000                 | 2017<br>HKD'000 |
| <b>Adjustment to measure non-GAAP gross profit</b>            |                                 |                 |
| Gross Profit  | 362,269                         | 317,848         |
| <b>Adjustment related to cost of sales</b>                    |                                 |                 |
| Provision for/(reversal of) write-down of inventories         | 3,450                           | (7,112)         |
| Non-GAAP Gross Profit   | 365,719                         | 310,736         |
| <b>Adjustment to measure non-GAAP net profit*</b>             |                                 |                 |
| Net profit*   | 111,854                         | 73,704          |
| <b>Adjustment related to cost of sales</b>                    |                                 |                 |
| Provision for/(reversal of) write-down of inventories         | 3,450                           | (7,112)         |
| <b>Adjustments to measure to operating expenses</b>           |                                 |                 |
| Share options/share awards granted to Directors and employees | 12,961                          | 14,548          |
| Amortization of intangible assets                             | 4,325                           | 1,719           |



|                              | For the period ended<br>30 June |                 |
|------------------------------|---------------------------------|-----------------|
|                              | 2018<br>HKD'000                 | 2017<br>HKD'000 |
| Non-GAAP Net Profit*         | 132,590                         | 82,859          |
| Non-GAAP EPS                 |                                 |                 |
| – Basic                      | 0.17                            | 0.11            |
| – Diluted                    | 0.16                            | 0.10            |
| Gross Profit Margin          | 30.0%                           | 36.1%           |
| Non-GAAP Gross Profit Margin | 30.3%                           | 35.3%           |
| Net Profit* Margin           | 9.3%                            | 8.4%            |
| Non-GAAP Net Profit* Margin  | 11.0%                           | 9.4%            |

\* Profit means Profit Attributable to Equity Holders of the Company.

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

As at 30 June 2018, the Company's issued share capital was approximately HKD8.0 million divided into 801,120,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD2,134.8 million (31 December 2017: HKD2,033.1 million). The Group had current assets of HKD1,923.5 million and current liabilities of HKD1,126.8 million and the current ratio was 1.71 times as at 30 June 2018 (31 December 2017: 1.69 times). The Group's net gearing ratio (calculated as net debt over total equity) was 3.2% at 30 June 2018 (31 December 2017: 12.1%).

As at 30 June 2018, the Group had cash and bank balances of approximately HKD489.2 million (31 December 2017: HKD408.1 million). The significant increase was due to decrease in trade and other receivables and increase in trade and other payables. 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 2018, the Group had bank deposits of HKD176.7 million pledged to secure the bank borrowings.



## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2018, the Group had committed to the expansion of existing plants to enhance its production capacity. As at 30 June 2018, the Group had contractual capital commitments of approximately HKD3.2 million (31 December 2017: HKD15.9 million). As of 31 December 2017, 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 2018, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD98.5 million (30 June 2017: HKD87.7 million).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The Group's costs and revenue 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 2018, the Group had a total of 4,901 employees (30 June 2017: 4,024). The Group's staff costs (including Directors' fees) amounted to HKD305.0 million (30 June 2017: HKD215.0 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 2018, no option was granted (30 June 2017: 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 2018, 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 (30 June 2017: same).

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 2018 (30 June 2017: 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 2018, for the consideration of any final dividend to be proposed and declared.

## SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

On 21 April 2017, O-Net Communications Holdings Limited ("O-Net Communications"), a wholly-owned subsidiary of the Company, entered into the formal sale and purchase agreement (the "Formal Agreement") with Advance Photonics Investments Limited (the "Vendor") in relation to the acquisition by O-Net Communications of the entire issued share capital of 3SP Technologies (the "Target Company") at a consideration of approximately USD19.2 million (the "Acquisition"). The completion of the Acquisition (the "Completion") is conditional pursuant to the terms of the Formal Agreement. The Target Company is principally engaged in research, development, manufacturing and supplying of innovative chips and laser products for telecommunications and data communications as well as innovative high-end markets such as LiDAR for ADAS market.



O-Net Communications has also purchased from the Vendor the total amount of indebtedness due and owing by the Vendor to a bank in the amount of 3,600,000 Euro with unpaid outstanding interest and all bank balances of the Vendor as at the date of the Formal Agreement on a dollar for dollar basis.

As at the date of this report, the Acquisition has not yet completed.

Details of the Formal Agreement and the Acquisition are set out in the announcement made by the Company dated 21 April 2017.

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 2018.

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

As at 30 June 2018, the Group maintained sufficient funds for the capital investment and operations in the coming year.

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

There has been no material event since the end of the financial period.

#### **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 2018 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

### 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 2018, 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/<br>Short position | Number of<br>ordinary<br>shares held | Approximate<br>percentage of<br>the Company's<br>issued share<br>capital |
|------------------|-------------------------------------|----------------------------------|--------------------------------------|--|
| Mr. Na Qinglin   | Interest of controlled corporations | Long position                    | 5,232,000<br>(Note 1)                | 0.65%  |
| Mr. Deng Xinping | Beneficial owner                    | Long position                    | 500,000<br>(Note 2)                  | 0.06%  |
| Mr. Ong Chor Wei | Beneficial owner                    | Long position                    | 500,000<br>(Note 2)                  | 0.06%  |
| Mr. Zhao Wei     | Beneficial owner                    | Long position                    | 500,000<br>(Note 2)                  | 0.06%  |

#### Notes:

- Pursuant to the SFO, Mr. Na Qinglin ("Mr. Na") is deemed to be interested in 5,232,000 shares of the Company (the "Share(s)") held by Mandarin Assets Limited, a company wholly and beneficially owned by Mr. Na.
- 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 17 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 2018, 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/<br>Short position | Number of<br>ordinary<br>shares held | Approximate<br>percentage of<br>the Company's<br>issued share<br>capital |
|-------------------------------------|-------------------------------------|----------------------------------|--------------------------------------|--|
| Kaifa Technology (H.K.) Limited     | Beneficial owner                    | Long position                    | 171,121,237                          | 21.36%   |
| Shenzhen Kaifa Technology Co., Ltd. | Interest of controlled corporations | Long position                    | 171,121,237<br>(Note)                | 21.36%   |
| China Electronics Corporation       | Interest of controlled corporations | Long position                    | 171,121,237<br>(Note)                | 21.36%   |
| O-Net Holdings (BVI) Limited        | Beneficial owner                    | Long position                    | 228,373,383                          | 28.51%   |

*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 17 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 2018 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | Outstanding at 30 June 2018 |
|------------------------|--------------------------------|---|---------------------------------------|-------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|
| <b>Directors</b>       |                                |   |                                       |                               |                           |                             |                             |                          |                             |
| Mr. Deng Xiping        | 1 June 2012                    | 2 June 2012 to 8 April 2020<br>(Note 1)     | 1.910                                 | 500,000                       | -                         | -                           | -                           | -                        | 500,000                     |
| Mr. Ong Chor Wei       | 1 June 2012                    | 2 June 2012 to 8 April 2020<br>(Note 1)     | 1.910                                 | 500,000                       | -                         | -                           | -                           | -                        | 500,000                     |
| Mr. Zhao Wei           | 9 April 2014                   | 28 March 2015 to 8 April 2020<br>(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<br>(Note 2) | 1.870                                 | 2,000,000                     | -                         | -                           | -                           | -                        | 2,000,000                   |
|                        | 1 June 2012                    | 2 June 2012 to 8 April 2020<br>(Note 1)     | 1.910                                 | 2,935,000                     | -                         | (1,700,000)                 | -                           | -                        | 1,235,000                   |
|                        |                                | 2 June 2012 to 8 April 2020<br>(Note 3)     |                                       | 1,031,000                     | -                         | (4,000)                     | -                           | -                        | 1,027,000                   |
|                        |                                | 2 June 2013 to 8 April 2020<br>(Note 4)     |                                       | 1,698,000                     | -                         | (51,000)                    | -                           | -                        | 1,647,000                   |
|                        |                                | 2 June 2012 to 8 April 2020<br>(Note 5)     |                                       | 903,000                       | -                         | -                           | -                           | -                        | 903,000                     |



| Name or category | Date of grant of share options | Exercisable period                          | Exercise price of share options (HKD) | Outstanding at 1 January 2018 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | Outstanding at 30 June 2018 |
|------------------|--------------------------------|---|---------------------------------------|-------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|
| Other Employees  | 22 April 2013                  | 3 March 2014 to 8 April 2020<br>(Note 6)    | 1.680                                 | 1,200,000                     | -                         | (400,000)                   | -                           | -                        | 800,000                     |
|                  | 25 September 2013              | 13 August 2014 to 8 April 2020<br>(Note 7)  | 1.652                                 | 140,000                       | -                         | -                           | -                           | -                        | 140,000                     |
|                  | 16 October 2013                | 14 October 2014 to 8 April 2020<br>(Note 8) | 1.628                                 | 4,000,000                     | -                         | (400,000)                   | -                           | -                        | 3,600,000                   |
|                  | 8 November 2013                | 8 November 2014 to 8 April 2020<br>(Note 9) | 1.484                                 | 3,265,000                     | -                         | (70,000)                    | -                           | (500,000)                | 2,695,000                   |
|                  | 9 April 2014                   | 28 March 2015 to 8 April 2020<br>(Note 10)  | 2.400                                 | 372,000                       | -                         | (28,000)                    | -                           | -                        | 344,000                     |
| <b>Total</b>     |                                |   |                                       | <b>19,044,000</b>             | <b>-</b>                  | <b>(2,653,000)</b>          | <b>-</b>                    | <b>(500,000)</b>         | <b>15,891,000</b>           |

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 was commenced on 13 August 2014, equally over a period of 5 years.
8. The vesting period was commenced on 14 October 2014, equally over a period of 4 years.
9. The vesting period was commenced on 8 November 2014, equally over a period of 5 years.
10. The vesting period was commenced on 28 March 2015, equally over a period of 5 years.



A total of 19,044,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2018. During the six months ended 30 June 2018, 2,653,000 share options were exercised into 2,653,000 Shares and 500,000 share options lapsed. Save as aforesaid, no further options were granted, cancelled, exercised or lapsed during the six months ended 30 June 2018.

## **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**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold 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 2018.

## 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 2018.

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

During the six months ended 30 June 2018, 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 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 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 2018.

## 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 2018 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, 21 August 2018



## CONDENSED CONSOLIDATED INCOME STATEMENT

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

|  |          |                 |                 | (Unaudited)              |  |
|--|----------|-----------------|-----------------|--------------------------|--|
|  |          |                 |                 | For the six months ended |  |
|  |          |                 |                 | 30 June                  |  |
|  | Note(s)  | 2018<br>HKD'000 | 2017<br>HKD'000 |                          |  |
| Revenue  | 8        | 1,207,636       | 880,871         |                          |  |
| Cost of sales  |          | (845,367)       | (563,023)       |                          |  |
| <b>Gross profit</b>  |          | <b>362,269</b>  | <b>317,848</b>  |                          |  |
| Other gains – net  | 8        | 60,451          | 19,654          |                          |  |
| Selling and marketing costs  |          | (45,301)        | (34,591)        |                          |  |
| Research and development expenses  |          | (131,318)       | (115,437)       |                          |  |
| Administrative expenses  |          | (104,718)       | (85,438)        |                          |  |
| Finance expenses – net   | 11       | (12,921)        | (13,545)        |                          |  |
| Share of result of a joint venture   |          | (609)           | –               |                          |  |
| <b>Profit before income tax</b>  | <b>9</b> | <b>127,853</b>  | <b>88,491</b>   |                          |  |
| Income tax expenses  | 12       | (18,470)        | (17,288)        |                          |  |
| Profit for the period  |          | <b>109,383</b>  | 71,203          |                          |  |
| <b>Profit attributable to:</b>   |          |                 |                 |                          |  |
| Equity holders of the Company  |          | <b>111,854</b>  | 73,704          |                          |  |
| Non-controlling interests  |          | <b>(2,471)</b>  | (2,501)         |                          |  |
|  |          | <b>109,383</b>  | 71,203          |                          |  |
| <b>Earnings per share for profit attributable to equity holders of the Company (HKD per share)</b> |          |                 |                 |                          |  |
| – Basic  | 14       | <b>0.14</b>     | 0.10            |                          |  |
| – Diluted  | 14       | <b>0.14</b>     | 0.09            |                          |  |

The notes on pages 37 to 54 are an integral part of these financial statements.



## CONDENSED CONSOLIDATED BALANCE SHEET

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

|   | Note(s) | As at<br>30 June<br>2018<br>(Unaudited)<br>HKD'000 | As at<br>31 December<br>2017<br>(Audited)<br>HKD'000 |
|---|---------|--|--|
| <b>ASSETS</b>   |         |  |  |
| <b>Non-current assets</b>                             |         |  |  |
| Land use right  |         | 24,341   | 24,865   |
| Property, plant and equipment                         | 4       | 968,983  | 916,020  |
| Intangible assets                                     |         | 77,535   | 82,648   |
| Investments accounted for using equity method         |         | 1,888  | 2,497  |
| Deferred income tax assets                            |         | 2,037  | 2,050  |
| Available-for-sale financial assets                   |         | 4,680  | 12,272   |
| Derivative financial instruments                      |         | 97   | 97   |
| Other non-current receivables                         | 5       | 72,974   | 73,213   |
| Other non-current assets                              |         | 202,099  | 209,247  |
|   |         | <b>1,354,634</b>                                   | <b>1,322,909</b>                                     |
| <b>Current assets</b>                                 |         |  |  |
| Inventories   |         | 459,839  | 377,471  |
| Trade and other receivables                           | 5       | 903,261  | 975,048  |
| Other current assets                                  |         | 441  | 1,552  |
| Financial assets at fair value through profit or loss |         | 70,735   | 18,816   |
| Cash and bank balances                                |         | 489,189  | 408,092  |
|   |         | <b>1,923,465</b>                                   | <b>1,780,979</b>                                     |
| <b>Total assets</b>                                   |         | <b>3,278,099</b>                                   | <b>3,103,888</b>                                     |



|   | Note(s) | As at<br>30 June<br>2018<br>(Unaudited)<br>HKD'000 | As at<br>31 December<br>2017<br>(Audited)<br>HKD'000 |
|---|---------|--|--|
| <b>EQUITY</b>   |         |  |  |
| <b>Capital and reserves attributable to equity holders of the Company</b> |         |  |  |
| Share capital   | 6       | 8,011  | 7,985  |
| Share premium   |         | 1,104,193  | 1,100,025  |
| Treasury shares   |         | (74,927)   | (74,927)   |
| Other reserves  |         | 108,604  | 120,442  |
| Retained earnings   |         | 989,840  | 877,986  |
|   |         | <b>2,135,721</b>                                   | 2,031,511  |
| <b>Non-controlling interests</b>  |         | <b>(885)</b>                                       | 1,584  |
| <b>Total equity</b>   |         | <b>2,134,836</b>                                   | 2,033,095  |
| <b>LIABILITIES</b>  |         |  |  |
| <b>Non-current liabilities</b>  |         |  |  |
| Deferred tax liabilities  |         | 2,455  | 2,498  |
| Deferred government grants  |         | 13,969   | 15,107   |
|   |         | <b>16,424</b>                                      | 17,605   |



|                                     |                | As at<br>30 June<br>2018<br>(Unaudited)<br>HKD'000 | As at<br>31 December<br>2017<br>(Audited)<br>HKD'000 |
|-------------------------------------|----------------|--|--|
|                                     | <i>Note(s)</i> |  |  |
| <b>Current liabilities</b>          |                |  |  |
| Trade and other payables            | 7              | 548,889  | 366,769  |
| Current income tax liabilities      |                | 21,046   | 32,752   |
| Borrowings                          |                | 556,904  | 653,667  |
|                                     |                | <b>1,126,839</b>                                   | 1,053,188  |
| <b>Total liabilities</b>            |                | <b>1,143,263</b>                                   | 1,070,793  |
| <b>Total equity and liabilities</b> |                | <b>3,278,099</b>                                   | 3,103,888  |

**Na Qinglin**  
*Director*

**Chen Zhujiang**  
*Director*

The notes on pages 37 to 54 are an integral part of these financial statements.



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

|  | (Unaudited)              |                |
|--|--------------------------|----------------|
|  | For the six months ended |                |
|  | 30 June                  |                |
|  | 2018                     | 2017           |
|  | <i>HKD'000</i>           | <i>HKD'000</i> |
| <b>Profit for the period</b>                           | <b>109,383</b>           | 71,203         |
| <b>Other comprehensive expense</b>                     |                          |                |
| <i>Item that may be reclassified to profit or loss</i> |                          |                |
| Currency translation differences                       | <b>(24,797)</b>          | (6,520)        |
| <b>Total comprehensive income for the period</b>       | <b>84,586</b>            | 64,683         |
| <b>Attributable to:</b>                                |                          |                |
| Equity holders of the Company                          | <b>87,055</b>            | 67,184         |
| Non-controlling interests                              | <b>(2,469)</b>           | (2,501)        |
| <b>Total comprehensive income for the period</b>       | <b>84,586</b>            | 64,683         |

The notes on pages 37 to 54 are an integral part of these financial statements.



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

|   | (Unaudited)                                   |                             |                               |                              |                                 |                  |   | Total<br>equity<br>HKD'000 |
|---|---|-----------------------------|-------------------------------|------------------------------|---------------------------------|------------------|---|----------------------------|
|   | Attributable to equity holders of the Company |                             |                               |                              |                                 |                  |   |                            |
|   | Share<br>capital<br>HKD'000                   | Share<br>premium<br>HKD'000 | Treasury<br>shares<br>HKD'000 | Other<br>Reserves<br>HKD'000 | Retained<br>earnings<br>HKD'000 | Total<br>HKD'000 | Non-<br>controlling<br>interests<br>HKD'000 |                            |
| <b>Balance at 1 January 2017</b>                          | 7,414   | 825,501                     | (74,927)                      | (6,133)                      | 669,119                         | 1,420,974        | 7,729                                       | 1,428,703                  |
| <b>Comprehensive income</b>                               |   |                             |                               |                              |                                 |                  |   |                            |
| Profit for the period                                     | -   | -                           | -                             | -                            | 73,704                          | 73,704           | (2,501)                                     | 71,203                     |
| <b>Other comprehensive income</b>                         |   |                             |                               |                              |                                 |                  |   |                            |
| Currency translation differences                          | -   | -                           | -                             | (6,520)                      | -                               | (6,520)          | -   | (6,520)                    |
| <b>Total other comprehensive income</b>                   | -   | -                           | -                             | (6,520)                      | -                               | (6,520)          | -   | (6,520)                    |
| <b>Total comprehensive income</b>                         | -   | -                           | -                             | (6,520)                      | 73,704                          | 67,184           | (2,501)                                     | 64,683                     |
| Issue of shares under placement                           | 500   | 261,665                     | -                             | -                            | -                               | 262,165          | -   | 262,165                    |
| Exercise of share options                                 | 64  | 11,562                      | -                             | -                            | -                               | 11,626           | -   | 11,626                     |
| Share option/share<br>award scheme<br>– value of services | -   | -                           | -                             | 9,944                        | -                               | 9,944            | -   | 9,944                      |
| <b>Balance at 30 June 2017</b>                            | 7,978   | 1,098,728                   | (74,927)                      | (2,709)                      | 742,823                         | 1,771,893        | 5,228                                       | 1,777,121                  |



|   | (Unaudited)                                   |                          |                            |                           |                              |                  |                                      | Total equity<br>HKD'000 |
|---|---|--------------------------|----------------------------|---------------------------|------------------------------|------------------|--------------------------------------|-------------------------|
|   | Attributable to equity holders of the Company |                          |                            |                           |                              |                  |                                      |                         |
|   | Share capital<br>HKD'000                      | Share premium<br>HKD'000 | Treasury shares<br>HKD'000 | Other Reserves<br>HKD'000 | Retained earnings<br>HKD'000 | Total<br>HKD'000 | Non-controlling interests<br>HKD'000 |                         |
| Balance at 1 January 2018                             | 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)                |
| Total other comprehensive income                      | -   | -                        | -                          | (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<br>–value of services | -   | -                        | -                          | 12,961                    | -                            | 12,961           | -                                    | 12,961                  |
| Balance at 30 June 2018                               | 8,011   | 1,104,193                | (74,927)                   | 108,604                   | 989,840                      | 2,135,721        | (885)                                | 2,134,836               |

The notes on pages 37 to 54 are an integral part of these financial statements.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

|  | (Unaudited)              |                |
|--|--------------------------|----------------|
|  | For the six months ended |                |
|  | 30 June                  |                |
|  | 2018                     | 2017           |
|  | HKD'000                  | HKD'000        |
| Net cash from operating activities                     | 262,792                  | 36,022         |
| Net cash used in investing activities                  | (94,147)                 | (145,746)      |
| Net cash (used in)/from financing activities           | (89,257)                 | 195,802        |
| <b>Net increase in cash and bank balances</b>          | <b>79,388</b>            | <b>86,078</b>  |
| Cash and bank balances at the beginning of the period  | 408,092                  | 533,707        |
| Exchange difference                                    | 1,709                    | 2,508          |
| <b>Cash and bank balances at the end of the period</b> | <b>489,189</b>           | <b>622,293</b> |

The notes on pages 37 to 54 are an integral part of these financial statements.



## 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 condensed consolidated interim financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 21 August 2018.

### 2. BASIS OF PREPARATION AND PRESENTATION

This condensed consolidated interim financial statements for the half-year reporting period ended 30 June 2018 has 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"). This condensed consolidated interim financial statements does not contain all the notes of the type normally included in the annual consolidated financial statements. Accordingly, this 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

In the current period, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the Group's operations and mandatory for interim periods beginning 1 January 2018. The Group had to change its accounting policies with effect from 1 January 2018 as a result of adopting HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15"). The impact of the adoption of these standards and the new accounting policies are disclosed and the standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.



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

### (a) New HKFRSs and amendments to HKFRSs adopted by the Group

#### *HKFRS 9 Financial Instruments*

Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss

The investment in a company established in Taiwan was reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss (HKD7,592,000 as at 1 January 2018). It does not meet the HKFRS 9 criteria for classification at amortised cost, because its cash flows does not represent solely payments of principal and interest.

There was no movement in retained earnings on 1 January 2018. In the six months to 30 June 2018, net fair value gains of HKD44,327,000 relating to this investment was recognised in profit or loss.

## 3. 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.

All the reported revenue from sales of goods were made to external customers for the six months ended 30 June 2018 and 2017.



### 3. SEGMENT REPORTING (Continued)

- (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<br>30 June |                 |
|---|-------------------------------------|-----------------|
|   | 2018<br>HKD'000                     | 2017<br>HKD'000 |
| The PRC                                 | 456,174                             | 430,978         |
| Europe                                  | 369,778                             | 168,952         |
| North America                           | 177,969                             | 98,987          |
| Other Asian countries excluding the PRC | 203,715                             | 181,954         |
|   | <b>1,207,636</b>                    | <b>880,871</b>  |

- (b) The total non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2018 and 31 December 2017 are as follows:

|               | As at                      |                                |
|---------------|----------------------------|--------------------------------|
|               | 30 June<br>2018<br>HKD'000 | 31 December<br>2017<br>HKD'000 |
| The PRC       | 1,010,893                  | 940,068                        |
| Hong Kong     | 241,311                    | 204,426                        |
| North America | 93,728                     | 90,783                         |
|               | <b>1,345,932</b>           | <b>1,235,277</b>               |

### 4. PROPERTY, PLANT AND EQUIPMENT

During the reporting period, property, plant and equipment purchased and disposed of by the Group were approximately HKD98,525,000 (six-month period ended 30 June 2017: approximately HKD87,718,000) and approximately HKD889,000 (six-month period ended 30 June 2017: approximately HKD91,000).



## 5. TRADE AND OTHER RECEIVABLES

|   | As at                      |                                |
|---|----------------------------|--------------------------------|
|   | 30 June<br>2018<br>HKD'000 | 31 December<br>2017<br>HKD'000 |
| Trade receivables (a)                               | 791,830                    | 708,062                        |
| Less: provision for impairment of receivables       | (1,106)                    | (752)                          |
| <b>Trade receivables – net</b>                      | <b>790,724</b>             | <b>707,310</b>                 |
| Amounts due from related parties (a)                | –                          | 379                            |
| Bills receivable (b)                                | 40,353                     | 193,062                        |
| Prepayments   | 40,515                     | 30,425                         |
| Interest receivables                                | 876                        | 940                            |
| Other receivables (c)                               | 103,767                    | 116,145                        |
|   | <b>976,235</b>             | <b>1,048,261</b>               |
| Less: non-current portion:<br>other receivables (c) | (72,974)                   | (73,213)                       |
| <b>Current portion</b>                              | <b>903,261</b>             | <b>975,048</b>                 |

- (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<br>2018<br>HKD'000 | 31 December<br>2017<br>HKD'000 |
| Within 30 days  | 298,310                    | 267,158                        |
| 31 to 60 days   | 208,313                    | 192,290                        |
| 61 to 90 days   | 227,057                    | 165,609                        |
| 91 to 180 days  | 42,390                     | 60,589                         |
| 181 to 365 days | 8,282                      | 21,554                         |
| Over 365 days   | 7,478                      | 1,241                          |
|                 | <b>791,830</b>             | <b>708,441</b>                 |



## 5. TRADE AND OTHER RECEIVABLES (Continued)

- (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<br>2018<br>HKD'000 | 31 December<br>2017<br>HKD'000 |
| Within 30 days  | 15,343                     | 12,874                         |
| 31 to 90 days   | 12,166                     | 98,042                         |
| 91 to 180 days  | 12,258                     | 78,625                         |
| 181 to 365 days | 586                        | 3,521                          |
|                 | <b>40,353</b>              | <b>193,062</b>                 |

## (c) Other non-current receivables

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD27,733,000 (2017: HKD28,005,000), 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 HKD27,733,000) 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 remaining balance amounting to HKD43,035,000 (2017: HKD45,208,000) is the loan provided to 3SP. The Group has agreed to acquire the entire issued shares of 3SP, and the loan will become shareholder's loan upon completion.



## 6. SHARE CAPITAL

|   | Authorized share capital –<br>ordinary shares of par value of<br>HKD0.01 each |                |
|---|---|----------------|
|   | <i>Number of<br/>shares</i>   | <i>HKD</i>     |
| As at 30 June 2018 and 30 June 2017             | 10,000,000,000  | 100,000,000    |
|   | Issued and fully paid up –<br>ordinary shares of par value of<br>HKD0.01 each |                |
|   | <i>Number of<br/>shares</i>   | <i>HKD'000</i> |
| As at 1 January 2017                            | 741,386,240   | 7,414          |
| Issue of shares under placement (a)             | 50,000,000  | 500            |
| Exercise of share options during the period (b) | 6,387,000   | 64             |
| As at 30 June 2017                              | 797,773,240   | 7,978          |
| 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          |

- (a) On 5 May 2017, the Company placed 50,000,000 shares at the price of HKD5.25 per placing share. The total proceeds of the share placement before deduction of the relevant expenses was approximately HKD262,500,000.
- (b) During the six months ended 30 June 2018 and 2017, 2,653,000 and 6,387,000 share options were exercised into 2,653,000 and 6,387,000 shares, respectively.



## 7. TRADE AND OTHER PAYABLES

|                                | As at                             |                                       |
|--------------------------------|-----------------------------------|---------------------------------------|
|                                | 30 June<br>2018<br><i>HKD'000</i> | 31 December<br>2017<br><i>HKD'000</i> |
| Trade payables (a)             | 315,767                           | 234,920                               |
| Bills payable (b)              | 41,294                            | 16,971                                |
| Accrued expenses               | 36,463                            | 27,996                                |
| Payroll payables               | 51,414                            | 51,736                                |
| Other payables                 | 98,518                            | 12,925                                |
| Amounts due to related parties | —                                 | 9,051                                 |
| Advance from customers         | 5,433                             | 13,170                                |
|                                | <b>548,889</b>                    | <b>366,769</b>                        |

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

### *Trade payables*

|                 | As at                             |                                       |
|-----------------|-----------------------------------|---------------------------------------|
|                 | 30 June<br>2018<br><i>HKD'000</i> | 31 December<br>2017<br><i>HKD'000</i> |
| Within 30 days  | 175,524                           | 96,548                                |
| 31 to 60 days   | 96,408                            | 68,581                                |
| 61 to 180 days  | 35,693                            | 55,537                                |
| 181 to 365 days | 2,644                             | 7,607                                 |
| Over 365 days   | 5,498                             | 6,647                                 |
|                 | <b>315,767</b>                    | <b>234,920</b>                        |



7. TRADE AND OTHER PAYABLES (Continued)

(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<br>2018<br>HKD'000 | 31 December<br>2017<br>HKD'000 |
| Within 30 days  | 3,570                      | 477                            |
| 31 to 90 days   | 13,639                     | 3,499                          |
| 91 to 180 days  | 19,388                     | 12,995                         |
| 181 to 365 days | 4,697                      | —                              |
|                 | <b>41,294</b>              | <b>16,971</b>                  |

8. 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 2018 and 2017 are as follows:

|   | For the six months ended<br>30 June |                 |
|---|-------------------------------------|-----------------|
|   | 2018<br>HKD'000                     | 2017<br>HKD'000 |
| Revenue   |                                     |                 |
| Sales of goods                                      | 1,207,636                           | 880,871         |
| Other gains – net                                   |                                     |                 |
| Government grants                                   | 15,672                              | 11,502          |
| Rental income                                       | 837                                 | 646             |
| Fair value loss on derivative financial instruments | 44,327                              | —               |
| Others  | (385)                               | 7,506           |
|   | <b>60,451</b>                       | <b>19,654</b>   |
| Total   | <b>1,268,087</b>                    | <b>900,525</b>  |



## 9. PROFIT BEFORE INCOME TAX

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

|   | For the six months ended<br>30 June |                 |
|---|-------------------------------------|-----------------|
|   | 2018<br>HKD'000                     | 2017<br>HKD'000 |
| Staff costs – excluding share options and share awards granted to directors and employees | 291,962                             | 200,414         |
| Share options and share awards granted to directors and employees                         | 12,961                              | 14,548          |
| Raw materials consumed  | 503,821                             | 359,645         |
| Changes in inventories of finished goods and work in progress                             | 148,295                             | 21,340          |
| Depreciation  | 46,066                              | 27,270          |
| Amortization  | 4,325                               | 1,719           |
| Provision for impairment for doubtful receivables   | –                                   | 19              |
| Provision for/(Reversal of) write-down of inventories                                     | 3,450                               | (7,112)         |

## 10. STAFF COSTS – INCLUDING DIRECTORS' EMOLUMENTS

|  | For the six months ended<br>30 June |                 |
|--|-------------------------------------|-----------------|
|  | 2018<br>HKD'000                     | 2017<br>HKD'000 |
| Salaries, bonus and other welfares                                     | 281,764                             | 189,413         |
| Pension – defined contribution plans                                   | 10,198                              | 11,001          |
| Share options/share awards granted to directors and employees (Note 9) | 12,961                              | 14,548          |
|  | 304,923                             | 214,962         |



## 11. FINANCE EXPENSES – NET

|  | For the six months ended<br>30 June |                 |
|--|-------------------------------------|-----------------|
|  | 2018<br>HKD'000                     | 2017<br>HKD'000 |
| Finance expenses                             |                                     |                 |
| – Bank borrowings                            | (20,812)                            | (11,618)        |
| – Net exchange loss                          | –                                   | (6,344)         |
| <b>Total finance expenses</b>                | <b>(20,812)</b>                     | <b>(17,962)</b> |
| Finance income                               |                                     |                 |
| – Interest income derived from bank deposits | 3,488                               | 4,417           |
| – Net exchange gain                          | 4,403                               | –               |
| <b>Total finance income</b>                  | <b>7,891</b>                        | <b>4,417</b>    |
| <b>Net finance expenses</b>                  | <b>(12,921)</b>                     | <b>(13,545)</b> |

## 12. INCOME TAX EXPENSES

|                                 | For the six months ended<br>30 June |                 |
|---------------------------------|-------------------------------------|-----------------|
|                                 | 2018<br>HKD'000                     | 2017<br>HKD'000 |
| Current income tax              |                                     |                 |
| – Hong Kong profits tax (c)     | –                                   | –               |
| – Canada profit tax (d)         | 5,766                               | 5,084           |
| – PRC enterprise income tax (e) | 15,352                              | 11,000          |
| <b>Total current income tax</b> | <b>21,118</b>                       | <b>16,084</b>   |
| Deferred income tax             | (2,648)                             | 1,204           |
| <b>Income tax expenses</b>      | <b>18,470</b>                       | <b>17,288</b>   |



## 12. 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 34%, 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 26.9% and 26.5% respectively.
- (e) O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It is entitled to a concessionary enterprise income tax rate of 15% for a period of 3 years from 2017 to 2019. The applicable tax rate for O-Net Automation Technology (Shenzhen) Limited is 25%.

## 13. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2018 (30 June 2017: Nil).

## 14. 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 |         |
|---|--------------------------|---------|
|   | 2018                     | 2017    |
| Profit attributable to equity holders of the Company for the six months (HKD'000) | 111,854                  | 73,704  |
| Weighted average number of ordinary shares in issue (thousands shares)            | 800,189                  | 756,319 |
| Basic earnings per share (HKD per share)  | 0.14                     | 0.10    |



#### 14. EARNINGS PER SHARE (Continued)

##### (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).

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<br>30 June |         |
|---|-------------------------------------|---------|
|   | 2018                                | 2017    |
| Profit attributable to equity holders of the Company<br>for the six months (HKD'000)                                  | 111,854                             | 73,704  |
| Weighted average number of ordinary shares in issue<br>(thousands shares)   | 800,189                             | 756,319 |
| Adjustments for exercise of share options and share<br>awards (thousands shares)                                      | 21,946                              | 38,437  |
| Weighted average number of ordinary shares for<br>the calculation of diluted earnings per share<br>(thousands shares) | 822,135                             | 794,756 |
| Diluted earnings per share (HKD per share)  | 0.14                                | 0.09    |



## 15. COMMITMENTS

### Operating Lease Commitments

The Group leases certain of its office premises, plant and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

|                         | As at                             |                                       |
|-------------------------|-----------------------------------|---------------------------------------|
|                         | 30 June<br>2018<br><i>HKD'000</i> | 31 December<br>2017<br><i>HKD'000</i> |
| Not later than one year | 10,232                            | 9,296                                 |
| Later than one year     | 11,068                            | 12,682                                |
|                         | <b>21,300</b>                     | 21,978                                |

### Capital Commitments

|   | As at                             |                                       |
|---|-----------------------------------|---------------------------------------|
|   | 30 June<br>2018<br><i>HKD'000</i> | 31 December<br>2017<br><i>HKD'000</i> |
| Capital expenditure contracted for but not provided | 3,152                             | 15,943                                |



## 16. 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 of Butterfly.

### (b) Transactions with Related Parties

The Group had undertaken the following significant transactions with related parties during the periods ended 30 June 2018 and 2017:

|  | For the six months<br>30 June |                 |
|--|-------------------------------|-----------------|
|  | 2018<br>HKD'000               | 2017<br>HKD'000 |
| <b>Sales of goods</b>                              |                               |                 |
| Butterfly  | 712                           | 489             |
| <b>Rental income received from a related party</b> |                               |                 |
| Butterfly  | 837                           | 646             |

### (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<br>30 June |                 |
|--------------------------------------|-------------------------------------|-----------------|
|                                      | 2018<br>HKD'000                     | 2017<br>HKD'000 |
| Salaries, bonus and other welfares   | 17,827                              | 19,292          |
| Pension – defined contribution plans | 217                                 | 261             |
| Share options/share awards expenses  | 3,200                               | 2,476           |
|                                      | <b>21,244</b>                       | <b>22,029</b>   |



## 17. 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 2018, the outstanding number of share options under the pre-IPO share option scheme was 210,600 (30 June 2017: 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.

#### (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.

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

| Date of grant   | Number of share options granted     | Number of                                    | Exercise price | Vesting date   |
|-----------------|-------------------------------------|--|----------------|--|
|                 |                                     | share options outstanding as at 30 June 2018 |                |  |
| 10 October 2011 | Tranches 1, 2, 3, 4 & 5:<br>800,000 | 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. |
|                 | (Total:<br>4,000,000)               |  |                |  |



17. 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 2018 | Exercise price | Vesting date   |
|---------------|---------------------------------|--|----------------|--|
| 1 June 2012   | Tranche 1:<br>14,929,000        | 5,812,000  | HKD1.910       | Tranche 1 (for certain directors and employees):   |
|               | Tranche 2:<br>1,360,000         |  |                | (i) 40% of the Replacement Options shall be exercisable from 2 June 2012;  |
|               | Tranche 3:<br>4,390,000         |  |                | (ii) another 20% of the Replacement Options shall be exercisable from 2 June 2013;   |
|               | Tranche 4:<br>13,172,000        |  |                | (iii) another 20% of the Replacement Options shall be exercisable from 2 June 2014; and  |
|               | (Total:<br>33,851,000)          |  |                | (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. |



17. 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 2018 | Exercise price | Vesting date   |
|-------------------|--|--|----------------|--|
| 22 April 2013     | Tranche 1: 200,000<br>Tranche 2: 2,350,000<br>Tranche 3: 350,000<br>(Total: 2,900,000) | 800,000  | HKD1.680       | Tranche 1 (for certain employees): vesting period commences at 12 February 2014, equally over a period of 5 years.<br><br>Tranche 2 (for certain employees): vesting period commences at 3 March 2014, equally over a period of 5 years.<br><br>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<br>(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<br>(Total: 4,000,000)                                  | 3,600,000  | 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<br>(Total: 10,300,000)                              | 2,695,000  | 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<br>(Total: 1,870,000)                                 | 844,000  | 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.   |
|                   |  | 15,891,000   |                |  |

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



## 17. 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<br>30 June |                         |
|--------------|-------------------------------------|-------------------------|
|              | 2018<br>Options<br>'000             | 2017<br>Options<br>'000 |
| At 1 January | 19,044                              | 28,099                  |
| Granted      | —                                   | —                       |
| Forfeited    | (500)                               | (1,974)                 |
| Exercised    | (2,653)                             | (6,387)                 |
| At 30 June   | 15,891                              | 19,738                  |

As at 30 June 2018, out of the 15,891,000 outstanding share options (2017: 19,738,000 share options), 13,891,000 share options (2017: 14,398,000 share options) were exercisable. 2,653,000 share options were exercised in 2018 (2017: 6,387,000 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 2018, no restricted shares (30 June 2017: Nil) were purchased by the trustee from the market and no new shares (30 June 2017: Nil) were issued by the Company for the purpose of the Award Scheme.