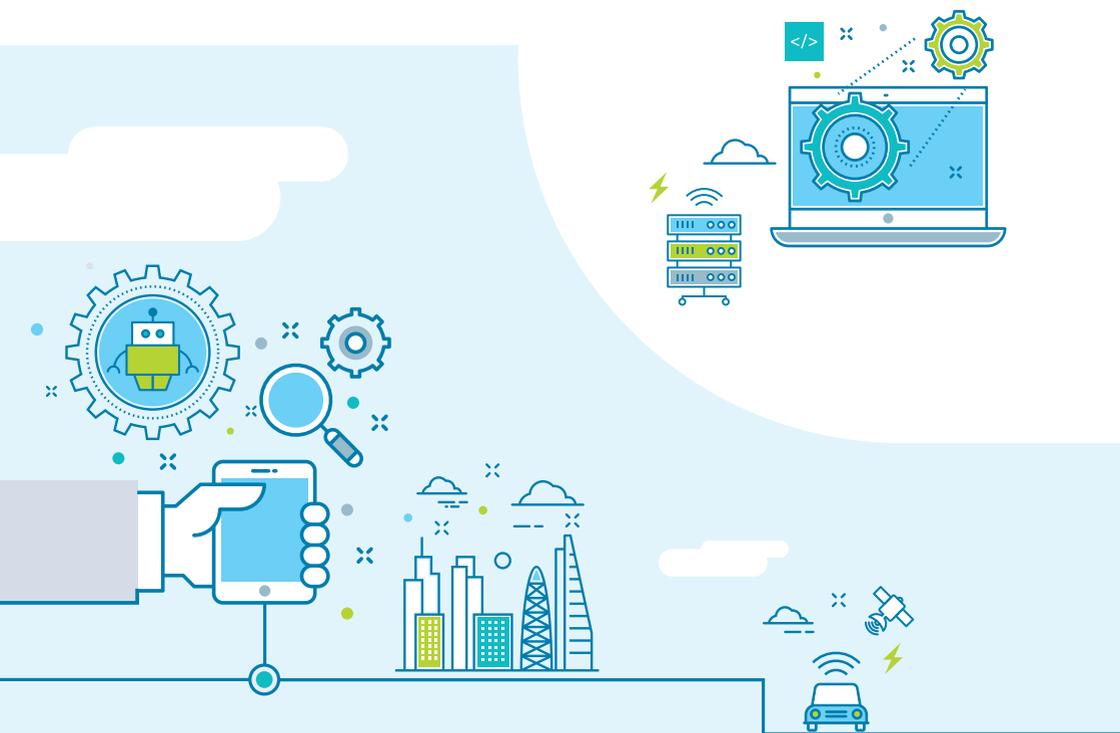




# TECHNOLOGY PIONEER



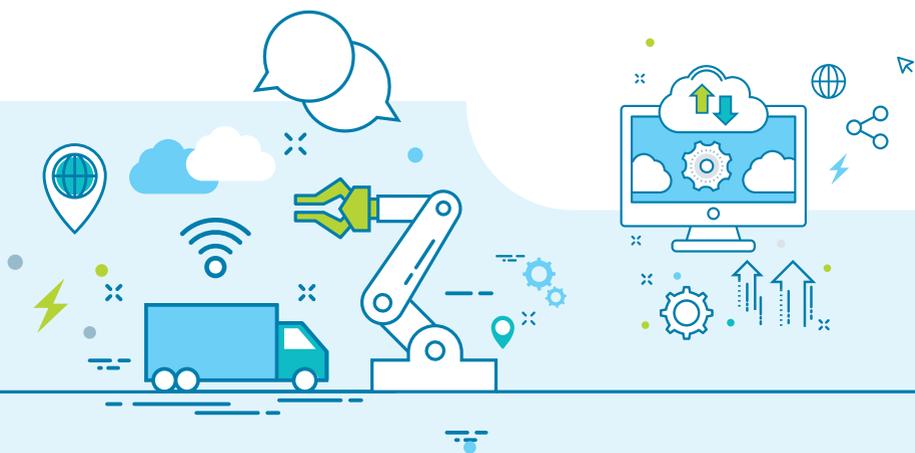
O-Net, as a high-technology leader, is capable to provide advanced innovative products and solutions in various market segments, including 1) optical networking market, which consists of a) telecom applications, the Group's traditional core business; and b) data center market, where the Group's effort mainly focuses on development of high-speed transceivers and associated components; 2) automation, sensing and industrials market, in which the Group has invested resources on machine vision systems and sensing products for Industry 4.0 as well as ultra-reliable fiber-optic components and multi-kilowatt optical components for fiber laser market, and Light Detection And Ranging ("LiDAR") products for the emerging Advanced Driver Assistance Systems ("ADAS"); and 3) coating, where the Group is utilizing its optical coating capabilities to supply special products for various industries such as smartphone.





# CONTENTS

Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	5
Other Information	21
Condensed Consolidated Income Statement	28
Condensed Consolidated Balance Sheet	29
Condensed Consolidated Statement of Comprehensive Income	32
Condensed Consolidated Statement of Changes in Equity	33
Condensed Consolidated Statement of Cash Flows	35
Notes to the Condensed Consolidated Interim Financial Statements	36



## CORPORATE INFORMATION

### COMPANY NAME

O-Net Technologies (Group) Limited

### FINANCIAL YEAR END

31 December

### PLACE OF INCORPORATION

Cayman Islands

### REGISTERED OFFICE

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

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

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### COMPANY'S WEBSITE

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

## BOARD OF DIRECTORS

### *Executive Director*

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

### *Non-Executive Directors*

Mr. Tam Man Chi  
Mr. Chen Zhujiang  
Mr. Huang Bin

### *Independent Non-Executive Directors*

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

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

Mr. Na Qinglin  
*(Chairman of the Nomination Committee)*  
Mr. Tam Man Chi  
Mr. Deng Xinping  
Mr. Ong Chor Wei  
Mr. Zhao Wei

## REMUNERATION COMMITTEE

Mr. Deng Xinping  
*(Chairman of the Remuneration Committee)*  
Mr. Na Qinglin  
Mr. Tam Man Chi  
Mr. Ong Chor Wei  
Mr. Zhao Wei

**CORPORATE GOVERNANCE COMMITTEE**

Mr. Na Qinglin  
*(Chairman of the Corporate Governance  
 Committee)*  
 Mr. Kung Sze Wai (FAIA, FCPA)  
 Mr. Chow Yu

**AUTHORIZED REPRESENTATIVES**

Mr. Na Qinglin  
 Mr. Kung Sze Wai (FAIA, FCPA)

**COMPANY SECRETARY**

Mr. Kung Sze Wai (FAIA, FCPA)

**INVESTOR RELATIONS CONTACT**

Mr. Kung Sze Wai (FAIA, FCPA)  
 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*  
 Bank of China  
 China Merchants Bank  
 Bank of Hangzhou

*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*  
 797,778,240 shares (as at this report approval  
 date)

*Board Lot Size*  
 1,000 shares

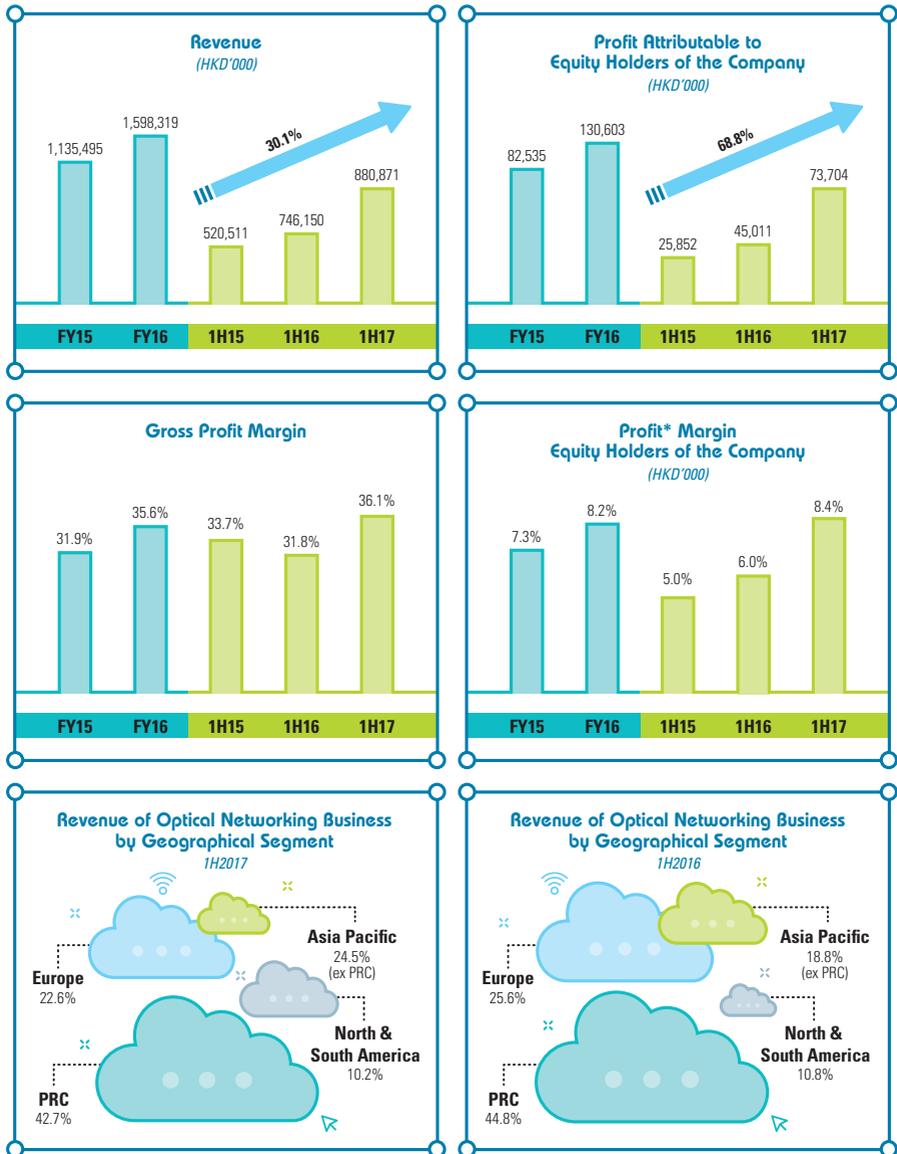
**CAYMAN ISLANDS SHARE REGISTRAR**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

During the past financial year, the Group has continued to bolster its position as a leader in the provision of high-technology products and solutions as it 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, it has also made significant strides in other emerging fast-growth segments such as laser chips for pump lasers and high-speed optical transceivers, as well as laser chips and optical components for Light Detection And Ranging (“LiDAR”) through the acquisition of 3SP Technologies (“3SP”), a specialist in indium phosphide (“InP”) and gallium arsenide (“GaAs”) based chips for lasers and ITF Technologies Inc. (“ITF”), a company engaged in design, manufacturing and sales of high reliability optical components and modules for the telecom sector as well as high power devices and sub-assemblies for the industrial sector.

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 introduction of automation solutions for the E-cigarette industry; (ii) the launch of machine vision systems and sensors; and (iii) the offering of advanced industrial laser products by ITF Technologies. All of these products and services have performed exceptionally well in the past year, hence laying the groundwork for further penetration across a wider swath of the Industry 4.0 applications.

Apart from the optical networking market for telecommunications applications, its traditional core business, the Group will continue to focus on other segments, including: (i) cloud data center infrastructure; (ii) numerous automation-related businesses to capture Industry 4.0 and robotics opportunities; (iii) industrial fiber lasers; (iv) LiDAR for emerging Advanced Driver Assistance Systems (“ADAS”) applications; and (v) coating services for the consumer electronics market. Consistent with this strategic direction and its overall goal to further distinguish itself as a leader in the global technology industry, it will continue to seek acquisition opportunities to realize synergies and generate business growth.

## INDUSTRY AND BUSINESS REVIEW

While the global economy has moderately recovered, unforeseeable circumstances are likely to continue to overshadow its growth. Nevertheless, the Group has managed to accelerate the business growth and has delivered an outstanding performance through its business transformation, diversification strategy and better R&D capabilities.

### Optical Networking Business

The global optical components market continued on the uptrend and recorded revenue of USD2,457 million in the first quarter of 2017, principally driven by (i) 100GbE expanding rapidly throughout the metro network in the telecommunications market; and (ii) data center operators continuing to announce new 100GbE data center builds. While the global optical components market is expected to grow by 6.1% to USD4,782 million in the first half of 2017 as compared with the same period last year, the Group’s revenue of optical networking business for the reporting period rose 7.6% and reached HKD725.0 million at the end of the first half of 2017 as compared to HKD673.5 million in the first half of 2016.

The optical components market has three segments, telecommunications, data-communications and access. In first quarter of 2017, the telecommunications segment with 13% growth as compared to the first quarter of 2016 remains the largest, making up 50.8% of the total optical components market while the data-communications segment with 12% growth as compared to the first quarter of 2016 contributed 33.0% of the total optical components market. During the first half of 2017, the Group's revenue from the telecommunications segment grew 3.4% as compared to the same period of last year to HKD514.1 million while that from the data-communications segment grew 19.6% as compared to the same period of last year contributing HKD210.9 million in revenue with both segments remaining the growth drivers of the Group's optical networking business.

### **Automation, Sensing and Industrials Businesses**

The Group's advanced technological platforms enable it to deliver products and services to customers across different industries, including members engaged in (i) the machine vision business; (ii) the automation solutions for E-cigarette business; (iii) the industrial laser business; and (iv) the LiDAR business. All of these businesses are experiencing brilliant growth and commanding a higher gross profit margin. During the first half of 2017, the automation, sensing and industrials businesses boasted a strong growth rate at 64.8% over the same period of the previous year and recorded HKD98.1 million in revenue, with a gross profit margin of 47.6%.

#### ***Machine vision business***

The "Made in China 2025" initiative ushered in by the Chinese Government in 2015 as its own iteration of Industry 4.0, has presented immense opportunities to the automation, sensing and industrials market in China. Among the products that are forecast to achieve significant sales growth include the machine vision system and fiber optic sensor which generated sales of USD540 million and USD129 million in 2015 and are projected to achieve a CAGR of 18% and 20% from 2015 to 2020 respectively.

In FY2015, the Group rolled out its first machine vision system and in the past year has continued to invest and expand product portfolios to cater for strong demand. Consequently, the machine vision system segment achieved solid growth of 41.7% over the same period of 2016, contributing HKD10.0 million in revenue to the automation, sensing and industrials businesses in the first half of 2017.

#### ***Automation solutions for E-cigarette business***

During the year, the Group continued to provide various automation solutions for the E-cigarette manufacturing industry as a leading automation solutions supplier for the E-cigarette industry. Capitalizing on the Group's longstanding relationships with several major E-cigarette makers in China and overseas leading E-cigarette players, its automation solutions business grew 37.0% over the same period of 2016, better than the growth rate of the E-cigarette market and recorded a revenue of HKD27.1 million in the first half of 2017.

### ***Industrial laser business***

Laser technology has been deployed in industrial applications since the invention of the first lasers in the 1960's. Since 2006, ITF 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. While the global manufacturing outlook for 2017 is improving, the global laser industry is expected to maintain a growth rate of approximately 6.6%. This increase will continue to be led by fiber laser sales, which are expected to grow at annual rates of 11.8% to take up a larger market share for industrial laser technology platforms. Fiber laser sales growth is driven by (i) power efficiency; (ii) cost competitiveness; (iii) ease of maintenance; and (iv) relative durability. Within the fiber laser market, kilowatt-class fiber lasers (or high power fiber lasers) are expected to see an annual sales growth of 23% during 2017.

In view of the significance position of fiber lasers, the Group has successfully tapped into the industrial laser industry through the acquisition of ITF and has become a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems.

During 2017, ITF expanded its offerings in multi-kilowatt fiber lasers by offering a best-in-class 2 kilowatt laser engine and 6 kilowatt laser combiners, as well as discrete optical components each capable of handling 3 kilowatts of power. As a result, the Group has benefited from these innovations and expanded production capacities to address this fast-growing revenue source, as reflected by the total revenue of HKD54.5 million for the industrial laser business in the first half of 2017. This result represents a significant growth rate of 66.6% in revenue over the same period of the previous year, and also outperforms the overall growth rate of fiber laser market, thus reaffirming this segment's status as a growth driver for the Group.

### ***LiDAR business***

The Group is also a pioneer in LiDAR, which is among the key solutions for making high-resolution images or maps used by Advanced Driving Assistance Systems ("ADAS"). By 2020, the estimated value of the LiDAR market will be USD1 billion with a projected CAGR of 16% from 2014 to 2020. This significant growth will be driven by the rise in automated and highly automated vehicles on the road in ten years' time. To capitalize on such growth, the Group has established a production line for the assembly of LiDAR, and its optical products for LiDAR, which have also been qualified by a global technology giant, commenced shipments and generated revenue in the second half of 2016. Furthermore, it is pursuing cooperation with other LiDAR players for securing additional customers. All of these efforts helped to further bolster the Group's position in this burgeoning business segment. Consequently, the LiDAR segment generated HKD6.5 million in revenue for the automation, sensing and industrials businesses in the first half of 2017.

## Coating and New Materials Business

According to International Data Corporation, smartphone shipments from the three major Chinese smartphone manufacturers globally rose by 26.6% in the first half of 2017 as compared to the same period of 2016. Furthermore, smartphone shipments from the top four Chinese smartphone manufacturers domestically rose by 16.9% in the first half of 2017 as compared to the same period of 2016. This underscores the enormous market share gains by the Chinese smartphone manufacturers, particularly the four market leaders, which are the major customers of the Group's coating business. Capitalizing on the Group's cutting-edge coating technologies, it has provided anti-reflective, anti-fingerprint and color lamination coating services, and enjoyed strong demand from the smartphone market, as evidenced by its impressive revenue growth of 340.4%, rising from HKD13.1 million in the first half of 2016 to HKD57.8 million in first half year of 2017.

## FINANCIAL REVIEW

### Revenue

For the first half of 2017, the Group reported revenue of HKD880.9 million, representing an increase of HKD134.7 million, or 18.1%, compared to that of HKD746.2 million in the first half of 2016. The increase in revenue in the first half of 2017 was primarily attributable to the growth in revenue of all businesses, especially the new businesses contributed by the Group's "Diversify for growth" strategy.

### Optical Networking Business

Revenue of the optical networking business of HKD725.0 million was recorded in the first half of 2017, representing an increase of 7.6% as compared to that of HKD673.5 million in the first half of 2016. The increase in revenue in the first half of 2017 was primarily attributable to the growing demand for the optical networking products, especially in the data-communications segment.

The revenue of telecommunications segment in the optical networking business increased by 3.4% to HKD514.1 million for the first half of 2017, representing 70.9% of total optical networking revenue, which was attributable to the combined effect of (i) the net increase in sales of passive optical networking products from telecommunications market; and (ii) the new revenue sources generated by sales of 100GbE active optical networking products for telecommunications market.

The revenue of data-communications segment in the optical networking business increased by 19.6% to HKD210.9 million for the first half of 2017, representing 29.1% of total optical networking revenue, which was attributable to the increase in sales of passive optical networking products from data-communications market offset the decrease in sales of 40GbE active optical networking products for data-communications market.

The revenue of the optical networking business from the overseas market was increased by 11.7% to HKD415.6 million in the first half of 2017, representing 57.3% of its total optical networking revenue, which was attributable to the net effect of (i) the increase in sales of passive optical networking products from both telecommunications and data-communications market; (ii) the new revenue sources generated by sales of 100GbE active optical networking products for telecommunications market; and (iii) the decrease in sales of 40GbE active optical networking products for data-communications market.

The revenue of optical networking business from the domestic market slightly increased by 2.6% to HKD309.4 million in the first half of 2017, representing 42.7% of its total optical networking revenue.

### **Automation, Sensing and Industrials Businesses**

Revenue of the automation, sensing and industrials businesses of HKD98.1 million was recorded in the first half of 2017, representing an increase of 64.8% as compared to that of HKD59.5 million in the first half of 2016, which attributed to the significant growth of the businesses within this segment.

#### ***Machine vision business***

Revenue of HKD10.0 million was recorded in the first half of 2017, representing an increase of 41.7% as compared to that of HKD7.1 million in the first half of 2016. The increase in revenue in the first half of 2017 was primarily attributable to the increase in sale effort by the Group.

#### ***Automation solutions for E-cigarette business***

Revenue of HKD27.1 million was recorded in the first half of 2017, representing an increase of 37.0% as compared to that of HKD19.7 million in the first half of 2016. The increase in revenue in the first half of 2017 was primarily attributable to the increase in demand of heating coils from several major E-cigarette makers in China.

#### ***Industrial laser business***

The Group's industrial laser revenue was solely contributed by the ITF which supplying optical components for the industrial laser application, such as fiber lasers. In the first half of 2017, revenue from the industrial laser business of HKD54.5 million was recorded, representing an increase of 66.6% as compared to that of HKD32.7 million in the first half of 2016. The revenue was primarily due to the increasing demands of FBG from both overseas and Chinese customers.

**LiDAR business**

Revenue of HKD6.5 million was recorded in the first half of 2017 which was primarily attributable to (i) the Group has been qualified by a global technology giant in the second half of 2016 for supplying optical products for LiDAR and assembly of LiDAR module; and (ii) the new revenue sources generated from new customers by supplying optical products for LiDAR adopted in ADAS applications.

**Coating and New Materials Business**

Revenue of HKD57.8 million was recorded in the first half of 2017, representing an increase of 340.4% as compared to that of HKD13.1 million in the first half of 2016. The increase of revenue in the first half of 2017 was primarily attributable to the increasing demand for coating on glass and ceramic casing of smartphone in China.

**Gross Profit and Gross Profit Margin**

Gross profit in the first half of 2017 was HKD317.8 million, representing an increase of HKD80.3 million, or 33.8%, from the gross profit of HKD237.5 million in the first half of 2016. The increase of gross profit was primarily due to (i) the increase in revenue from all businesses of the Group; and (ii) increase in gross profit margin of the optical networking business as described below.

As a percentage of total revenue, gross profit margin increased significantly to 36.1% in the first half of 2017 as compared to 31.8% in the first half of 2016. The increase of gross profit margin was primarily due to (i) the gross profit margin of optical networking business increased significantly to 34.1% in the first half of 2017, as compared to 30.1% in the first half of 2016; and (ii) the revenue contribution from the high margin new businesses increased to 17.7% in the first half of 2017, as compared to 9.7% in the first half of 2016.

**Other Gains**

Other gains in the first half of 2017 increased by HKD13.0 million to HKD19.7 million, from HKD6.7 million in the first half of 2016, which was primarily due to (i) the increase in government grants by HKD8.0 million, from HKD3.5 million in the first half of 2016 to HKD11.5 million in the first half of 2017; and (ii) the increase of income from sales of raw materials by HKD5.5 million, from HKD0.7 million in the first half of 2016 to HKD6.2 million in the first half of 2017.

## Selling and Marketing Costs

Selling and marketing costs of HKD34.6 million in the first half of 2017 represents an increase of HKD3.3 million, or 10.5%, compared to HKD31.3 million in the first half of 2016. The increase in selling and marketing costs in the first half of 2017 was primarily attributable to (i) the increase of the salary costs and commission; (ii) higher freight charges; and (iii) the increase in share options/share awards expenses. However, selling and marketing costs as a percentage of revenue decreased to 3.9% in the first half of 2017 as compared to 4.2% in the first half of 2016. The reason was mainly attributable to the higher revenue outweighing the increase in the overall selling and marketing costs.

Salary costs and commission in the first half of 2017 was HKD22.0 million which represents an increase of HKD3.2 million, or 17.0% compared with HKD18.8 million in the first half of 2016. This increase was primarily attributable to the combined effect of (i) bolstering our efforts in hiring additional staff for the sales team to seek for new business opportunities in automation, sensing and industrial businesses; and (ii) an increase in salaries; and (iii) increase in commission due to the increase of sales in the first half of 2017.

Freight charges in the first half of 2017 was HKD5.4 million which represents an increase of HKD0.8 million, or 17.4% compared with HKD4.6 million in the first half of 2016. It rose in step with the rising sales in the first half of 2017.

Share options/share awards expenses in the first half of 2017 was HKD2.1 million, representing an increase of HKD0.8 million, compared with HKD1.3 million in the first half of 2016. The increase was primarily attributable to amortization of share award expenses for the newly granted share awards in the second half of 2016.

## Research and Development Expenses

Research and development ("R&D") expenses in the first half of 2017 were HKD115.4 million, which was 41.8% higher compared to HKD81.4 million in the first half of 2016. The rise in R&D expenses was mainly due to (i) the increase in salary costs for the R&D engineers; and (ii) the increase in raw materials consumed in R&D projects. R&D expenses as a percentage of revenues increased to 13.1% in the first half of 2017 as compared to 10.9% in first half of 2016. This was mainly due to the increase in R&D expenses outweighing the increase in revenue.

For the first half of 2017, the salary costs for the R&D engineers was HKD57.6 million, representing an increase of HKD15.2 million, or 35.8% as compared to HKD42.4 million in the first half of 2016. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers for optical networking business; and (ii) an increase in salaries.

Raw materials consumed in the R&D projects in the first half of 2017 was HKD30.9 million, representing an increase of HKD18.2 million, or 143.3% as compared with HKD12.7 million in the first half of 2016. The increase was primarily attributable to (i) the increasing investments in R&D projects; and (ii) the increase of expenses for purchasing raw materials for preparation of prototype and samples, especially 100GbE mini ICR and 10 X 10 TOSA & ROSA.

### **Administrative Expenses**

Administrative expenses in the first half of 2017 were HKD85.4 million, which was 22.5% higher, compared to HKD69.7 million in the first half of 2016. The increase in administrative expenses in the first half of 2017 was primarily attributable to (i) the increase in staff salaries and staff welfare; and (ii) increase in overall administrative expenses. Administrative expenses as a percentage of revenue increased to 9.7% in the first half of 2017 as compared to 9.3% in the first half of 2016. The increase was mainly due to the increase in administrative expenses outweighing the increase in revenue.

For the first half of 2017, the salary costs was HKD45.1 million, representing an increase of HK5.4 million, or 13.6% as compared to HKD39.7 million in the first half of 2016. The increase was primarily attributable to an increase in salaries.

The other administrative expenses rose in line with the growth of the Group such as travelling, office supplies, utilities, rent and legal & professional fees which increased HKD5.6 million in total, represented an increase of 39.2%.

### **Finance Expenses/Income**

Finance income in the first half of 2017 amounted to HKD4.4 million, representing an increase of HKD1.9 million, compared to HKD2.5 million in the first half of 2016. The increase in interest income was due to increasing pledging bank deposits and term deposits.

Finance expense in the first half of 2017 amounted to HKD18.0 million, representing an increase of 70.4% as compared to HKD10.5 million in the first half of 2016. The increase in finance expenses was primarily due to (i) the interest expenses increased by HKD1.9 million as the bank borrowings increased by HKD552.8 million during the period; and (ii) the impact of weakening of the USD (for entities within the Group using RMB as functional currency) on the sales transactions and balances denominated in USD in the first half of 2017, the foreign exchange loss increased by HKD5.6 million.

### **Share of the Result of a Joint Venture**

The share of result of a joint venture ("JV") was nil in the first half of 2017, which represents a decrease of HKD0.8 million as compared with HKD0.8 million in the first half of 2016 due to the JV was disposed in October 2016.

### **Profit Before Tax and Profit Before Tax Margin**

Profit before tax of HKD88.5 million was recorded in the first half of 2017 while HKD52.9 million was recorded in the first half of 2016. The increase in profit before tax in the first half of 2017 was primarily due to an increase in revenue and improvement in gross profit margin as described above.

Profit before tax as a percentage of total revenue, namely profit before tax margin, increased from 7.1% in the first half of 2016 to 10.0% in the first half of 2017. The increase in profit before tax margin was primarily due to (i) the increase in gross profit margin as described above; and (ii) the decrease in selling and marketing costs as a percentage of the Group's revenue.

### **Income Tax Expenses**

Currently, income tax expenses of the Group mainly consist of PRC 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.

Deferred income tax assets had been recognized in respect of tax losses as the directors consider it is probable that tax losses carried forward can be utilized.

Income tax expenses in the first half of 2017 amounted to HKD17.3 million represents an increase of HKD8.7 million or 101.2% from the income tax expenses of HKD8.6 million in the first half of 2016. The increase in income tax expenses was due to (i) the increase in profit before tax in the first half of 2017; and (ii) the increase in Canada profits tax in the first half of 2017 as all tax losses carried forward of ITF was utilized during 2016.

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

Profit attributable to equity holders of HKD73.7 million was recorded in the first half of 2017, while HKD45.0 million was recorded in the first half of 2016. The increase in profit attributable to equity holders was primarily due to increase in revenue and improvement in gross profit margin as disclosed above.

Profit attributable to equity holders as a percentage of total revenue, namely net profit margin, increased from 6.0% in the first half of 2016 to 8.4% in the first half of 2017. The increase in net profit margin was primarily due to the increase in the gross profit margin as described above.

## NON-GAAP FINANCIAL PERFORMANCE

### Non-GAAP Profit Analysis

#### Reconciliation of Non-GAAP Financial Measures

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

	<b>For the period ended 30 June</b>	
	<b>2017 HKD'000</b>	2016 HKD'000
<b>Adjustment to measure non-GAAP gross profit</b>		
Gross Profit	<b>317,848</b>	237,498
<b>Adjustment related to cost of sales</b>		
(Reversal of)/Provision for write-down of inventories	<b>(7,112)</b>	4,221
Non-GAAP Gross Profit	<b>310,736</b>	241,719
<b>Adjustment to measure non-GAAP net profit*</b>		
Net profit*	<b>73,704</b>	45,011
<b>Adjustment related to cost of sales</b>		
(Reversal of)/Provision for write-down of inventories	<b>(7,112)</b>	4,221
<b>Adjustments to measure to operating expenses</b>		
Share options/share awards granted to Directors and employees expenses	<b>14,548</b>	7,776
Amortization of intangible assets	<b>1,719</b>	2,105

	<b>For the period ended 30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	<i>HKD'000</i>
<b>Adjustments to other gain — net</b>		
Fair value loss on derivative financial instruments	—	1,000
Non-GAAP Net Profit*	<b>82,859</b>	60,113
Non-GAAP EPS		
— Basic	<b>0.11</b>	0.08
— Diluted	<b>0.10</b>	0.08
Gross Profit Margin	<b>36.1%</b>	31.8%
Non-GAAP Gross Profit Margin	<b>35.3%</b>	32.4%
Net Profit* Margin	<b>8.4%</b>	6.0%
Non-GAAP Net Profit* Margin	<b>9.4%</b>	8.1%

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

## FUTURE PROSPECTS

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

### Optical Networking Business

Underpinned by innovation, the Group remains fully optimistic that the optical networking business will make even greater inroads in the market that is projected to expand at a compound annual growth rate of 12% between 2015 and 2021. The telecommunications market is expected to advance further due to ongoing double-digit traffic volume growth which will drive network infrastructure development, especially 100GbE metro network deployment. On the other hand, the upslope demand for web-scale data centres and data centre upgrades to complement the introduction of 100GbE since the second half of 2016 are expected to be the catalysts for growth in the data-communications market.

With strong growth forecasted for the global telecommunications and data-communications markets, the Group has already taken measures to strengthen its position in both sectors. In particular, given the high pace of growth of its data-communications business, the Group is well on its way to introduce new iterations of advanced products to the market. Furthermore, the mini ICR, 100GbE AOC and 10 X 10 TOSA & ROSA products, having already been launched and qualified in the second half of 2016, will proceed with mass production and shipments in the second half of 2017.

### **Automation, Sensing and Industrials Businesses**

The revolution that is taking place in the manufacturing and production industry brought about by the Industry 4.0 and the “Made in China 2025” initiatives will have a significant positive impact on the automation and digitalisation market in the coming decade and beyond. Furthermore, while China’s automaton industry will be valued at approximately USD100 billion in 2020 according to an estimate, a large number of local Chinese enterprises lag behind in industrial production facilities, hence the window of opportunity is immense. The Group will therefore look to build on the successes achieved by its automation, sensing and industrials businesses by providing automation solutions, as well as offering its machine vision systems. The Group is confident that its automation, sensing and industrials products will be able to seize opportunities generated from the Industry 4.0 trend — placing it among the first automation solutions providers in the Industry 4.0 area.

By leveraging its existing technology platforms and manufacturing capabilities, the Group’s subsidiary ITF will continue to develop and launch new solutions for high power fiber laser. The global multi-kilowatt fiber laser market is expected to record a CAGR of 13% from 2016 to 2021. To address this high-potential market, ITF continues to be uniquely positioned by offering a broad range of fiber-based components and modules necessary for the operation of fiber lasers — including high power fiber lasers. Coupled with the ongoing development and introduction of additional building blocks for multi-kilowatt fiber lasers, the Group is positioning itself as a key enabler in the transition of materials processing markets to the fiber laser sector to include metal cutting, welding, as well as marking and engraving application. On this front, the Group expects to continue to outpace the market growth rate and expand its scale of business.

The LiDAR market is expected to have a CAGR of 25% between 2017 and 2022 as LiDAR is believed to be one of the most significant technologies to be used in ADAS and affecting the evolution of the automobile. The Group, along with ITF and 3SP, is committed to developing LiDAR module in order to lead the industry in LiDAR applications for autonomous vehicles. Already one of the key components suppliers of the technology, the Group is optimistic about its future demand, and to expedite adoption, it has embarked on development of the next generation of LiDAR underpinned by the Group’s vertical integration that would be at a lower price point. O-Net, along with ITF and 3SP, supply key optical components and modules necessary to the successful deployment of a cost-effective LiDAR solution which would make ADAS a more cost-effective proposition to members of the automotive industry. The Group is confident that this business segment will serve as an additional revenue stream that can drive its overall revenue growth in the future.

## Coating and New Materials Business

As for the coating and new materials business, which continue to gain growth momentum driven by the demand of the Chinese smartphone manufacturers, the Group seeks to encourage business development by establishing new subsidiaries for the introduction of innovative high-growth products. Capitalizing on its cutting-edge coating technology to provide anti-reflective, anti-fingerprint and color lamination coating services to Chinese smartphone manufacturers, the Group is striving to secure more new customers, including those from the consumer electronics industries, which will eventually improve its overall profitability.

While the Group has made significant progress in all of its business activities, thus bringing it closer to the realisation 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 favourable returns to its shareholders.

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

As at 30 June 2017, the Company's issued share capital was approximately HKD8.0 million divided into 797,773,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD1,777.1 million (31 December 2016: HKD1,428.7 million). The Group had current assets of HKD1,635.1 million and current liabilities of HKD896.9 million and the current ratio was 1.8 times as at 30 June 2017 (31 December 2016: 1.5 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 36.8% at 30 June 2017 (31 December 2016: 49.9%).

As at 30 June 2017, the Group had cash and cash equivalents of approximately HKD302.9 million (31 December 2016: HKD169.3 million). The significant increase was due to placing of shares. 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 2017, the Group had bank deposit of HKD315.8 million pledged to secure the bank borrowings.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2017, the Group had committed to the expansion of existing plants and new plants to enhance its production capacity. As at 30 June 2017, the Group had contractual capital commitments of approximately HKD4.0 million (31 December 2016: HKD8.3 million). As of 31 December 2016, 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 2017, 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 HKD87.7 million (30 June 2016: HKD46.8 million).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

Given that the management is in the opinion that the foreign exchange and conversion risks are not significant, the Group currently does not have a foreign currency hedging policy. However, the management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise. The reporting currency of the Group is Hong Kong dollar, as the Directors consider that such presentation is more appropriate for a company to be listed in Hong Kong and for the convenience of the shareholders. The Group maintained certain cash denominated in Hong Kong dollars for paying dividends, if declared.

## EMPLOYEE BENEFIT

As at 30 June 2017, the Group had a total of 4,024 employees (30 June 2016: 3,078). The Group's staff costs (including Directors' fees) amounted to HKD215.0 million (30 June 2016: HKD175.2 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 by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"), is 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.

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 2017, no option was granted (30 June 2016: 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 2017, 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 2016: 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 2017 (30 June 2016: Nil).

## **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 US\$19.2 million (the “Acquisition”). The completion of the Acquisition 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 this report approval date, 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 2017.

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

As at 30 June 2017, the Group maintained sufficient funds for the capital investment and operations in the coming year.

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

On 2 August 2017, O-Net Coating and Materials Technologies (HK) Limited (“O-Net Coating”), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the “JV Agreement”) with Butterfly Technologies (Hong Kong) Limited (“Butterfly”) in relation to the formation of 昂紅科技（深圳）有限公司 (O-Net Butterfly Technologies (Shenzhen) Company Limited\*) (the “JV Company”). The total registered capital of the JV Company is HK\$10,000,000 with each of O-Net Coating and Butterfly investing HK\$5,000,000. The JV Company will principally be engaged in the development of 3D sensing modules for smartphone applications. The JV Company will set up a research and development team to, with the support from Butterfly, design the whole module and algorithms, while the Group shall provide support on light source and filter components.

Details of the JV Agreement are set out in the announcement made by the Company dated 2 August 2017.

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

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

Saved as disclosed under the sections headed “Post-IPO Share Option Scheme” above and in note 19 to the condensed consolidated financial statements, at no time for the first half of 2017 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.

\* for identification purpose only

## 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 2017, the interests or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

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

Name of Director	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of a controlled corporations	Long position	5,232,000 (Note 1)	0.66%
Mr. Tam Man Chi	Beneficial owner	Long position	9,337,480	1.17%
Mr. Deng Xinping	Beneficial owner	Long position	500,000 (Note 2)	0.06%
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000 (Note 2)	0.06%
Mr. Zhao Wei	Beneficial owner	Long position	500,000 (Note 2)	0.06%

#### Notes:

- 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 pursuant to the SFO. Mr. Na was previously deemed to be interested in 243,573,383 Shares held by O-Net Holdings (BVI) Limited, a company owned as to approximately 67.44% by Mandarin IT Fund I, which was managed by its investment manager, Mandarin VP (BVI) Limited, a wholly-owned subsidiary of Mandarin Venture Partners Limited, which in turn was owned as to approximately 75% by Mr. Na. Upon distribution by Mandarin IT Fund I of all the shares held in O-Net Holdings (BVI) Limited on 16 January 2017, Mr. Na has ceased the deemed interest in these 243,573,383 Shares pursuant to the SFO since then.
- 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".

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

As at 30 June 2017, so far as is known to the Directors and chief executives of the Company, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company, other than the interests of Directors as disclosed above, as recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Long position/ Short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Kaifa Technology (H.K.) Limited	Beneficial owner	Long position	171,394,237	21.48%
Shenzhen Kaifa Technology Co., Ltd.	Interest of a controlled corporation	Long position	171,394,237 (Note 1)	21.48%
China Electronics Corporation	Interest of a controlled corporation	Long position	171,394,237 (Note 1)	21.48%
O-Net Holdings (BVI) Limited	Beneficial owner	Long position	228,573,383	28.65%
UBS Group AG	Security Interest	Long position	22,534,000	2.83%
	Interest of controlled corporations	Long position	33,143,510 (Note 2)	4.15%
		Short position	32,049,000 (Note 2)	4.02%

*Notes:*

- These 171,394,237 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 171,394,237 Shares under the SFO.
- 600,000 Shares and 600,000 short positions are held through UBS Securities LLC, 5,000 Shares are held through UBS Fund Management (Switzerland) AG and 32,538,510 Shares and 31,449,000 short positions are held through UBS AG, all being directly wholly-owned by UBS Group AG. Therefore, UBS Group AG is deemed to be interested in these 33,143,510 Shares and deemed to hold these 32,049,000 short positions pursuant to the SFO.

## 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 1st January 2017	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 June 2017
<b>Directors</b>									
Mr. Deng Xiping	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	500,000	—	—	—	—	500,000
Mr. Ong Chor Wei	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	500,000	—	—	—	—	500,000
Mr. Zhao Wei	9 April 2014	28 March 2015 to 28 March 2019 (Note 11)	2.40	500,000	—	—	—	—	500,000
Sub-total				1,500,000	—	—	—	—	1,500,000
<b>Other Employees</b>									
	10 October 2011	10 October 2012 to 8 April 2020 (Note 2)	1.870	3,800,000	—	(1,800,000)	—	—	2,000,000
	1 June 2012	2 June 2012 to 8 April 2020 (Note 1)	1.910	4,784,000	—	(1,288,000)	—	—	3,496,000
		2 June 2012 to 8 April 2020 (Note 3)		1,133,000	—	(102,000)	—	—	1,031,000
		2 June 2013 to 8 April 2020 (Note 4)		2,164,000	—	(432,000)	—	—	1,732,000
		2 June 2012 to 8 April 2020 (Note 5)		1,328,000	—	(425,000)	—	—	903,000
	22 April 2013	3 March 2014 to 8 April 2020 (Note 6)	1.680	2,350,000	—	—	—	(1,150,000)	1,200,000

Name or category	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1st January 2017	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 June 2017
Other Employees	11 September 2013	11 September 2014 to 8 April 2020 (Note 7)	1.708	2,000,000	—	(1,200,000)	—	(800,000)	—
	25 September 2013	13 August 2014 to 8 April 2020 (Note 8)	1.652	350,000	—	(210,000)	—	—	140,000
	16 October 2013	14 October 2014 (Note 9)	1.628	4,000,000	—	—	—	—	4,000,000
	8 November 2013	8 November 2014 to 8 April 2020 (Note 10)	1.484	4,063,000	—	(721,000)	—	—	3,342,000
	9 April 2014	28 March 2015 to 8 April 2020 (Note 11)	2.40	627,000	—	(209,000)	—	(24,000)	394,000
<b>Total</b>				<b>28,099,000</b>	<b>—</b>	<b>(6,387,000)</b>	<b>—</b>	<b>(1,974,000)</b>	<b>19,738,000</b>

## Notes:

- 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.
- The vesting period was commenced on 10 October 2012, equally over a period of 5 years.
- The vesting period was commenced on 2 June 2012, equally over a period of 4 years.
- The vesting period was commenced on 2 June 2013, equally over a period of 3 years.
- 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.
- The vesting period was commenced on 3 March 2014, equally over a period of 5 years.
- The vesting period was commenced on 11 September 2014, equally over a period of 5 years.
- The vesting period was commenced on 13 August 2014, equally over a period of 5 years.
- The vesting period was commenced on 14 October 2014, equally over a period of 4 years.
- The vesting period was commenced on 8 November 2014, equally over a period of 5 years.
- The vesting period was commenced on 28 March 2015, equally over a period of 5 years.

A total of 28,099,000 share options granted under the Post-IPO Share Option Scheme were remained outstanding on 1 January 2017. During the six months ended 30 June 2017, 6,387,000 share options were exercised into 6,387,000 Shares and 1,974,000 share options lapsed. Save as aforesaid, no further options were granted, cancelled, exercised or lapsed during the six months ended 30 June 2017.

## **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 (the "Model Code") for Securities Transactions by Directors of Listed Issuers 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 2017.

## **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 2017.

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

During the six months ended 30 June 2017, 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 2017.

## 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 2017 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, 22 August 2017

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

	Note(s)	(Unaudited)	
		For the six months ended 30 June	
		2017 HKD'000	2016 HKD'000
Revenue	10	880,871	746,150
Cost of sales		(563,023)	(508,652)
<b>Gross profit</b>		<b>317,848</b>	237,498
Other gains — net	10	19,654	6,673
Selling and marketing costs		(34,591)	(31,349)
Research and development expenses		(115,437)	(81,412)
Administrative expenses		(85,438)	(69,690)
<b>Operating profit</b>		<b>102,036</b>	61,720
Finance expenses	13	(13,545)	(8,017)
Share of result of a joint venture		—	(837)
<b>Profit before income tax</b>	11	<b>88,491</b>	52,866
Income tax expenses	14	(17,288)	(8,595)
Profit for the period		<b>71,203</b>	44,271
<b>Profit attributable to:</b>			
Equity holders of the Company		<b>73,704</b>	45,011
Non-controlling interests		<b>(2,501)</b>	(740)
		<b>71,203</b>	44,271
<b>Earnings per share for profit attributable to equity holders of the Company</b> <i>(HKD per share)</i>			
— Basic	16	<b>0.10</b>	0.06
— Diluted	16	<b>0.09</b>	0.06

The notes on pages 36 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 30 June 2017 (Unaudited) HKD'000	As at 31 December 2016 (Audited) HKD'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use right		21,585	23,826
Property, plant and equipment	6	743,302	701,835
Intangible assets		85,590	88,104
Deferred income tax assets		11,201	12,405
Available-for-sale financial assets		15,290	15,290
Derivative financial instruments		97	97
Other non-current receivable	7	27,908	26,139
Prepayments for acquisition of property, plant and equipment		17,257	—
Other non-current assets		181,018	131,744
		<b>1,103,248</b>	999,440
<b>Current assets</b>			
Inventories		337,907	269,779
Trade receivables	7	446,527	460,672
Other receivables	7	64,229	37,689
Notes receivables	7	103,221	148,873
Other current assets		42,549	18,077
Financial assets at fair value through profit or loss		18,394	18,394
Pledged bank deposits		315,795	354,369
Term deposits with initial term of over three months		3,600	10,026
Cash and cash equivalents		302,898	169,312
		<b>1,635,120</b>	1,487,191
<b>Total assets</b>		<b>2,738,368</b>	2,486,631

	<b>As at 30 June 2017 (Unaudited) HKD'000</b>	As at 31 December 2016 (Audited) HKD'000
<i>Note(s)</i>		
<b>EQUITY</b>		
<b>Capital and reserves attributable to the Company's equity holders</b>		
Share capital	8 <b>7,978</b>	7,414
Share premium	<b>1,098,728</b>	825,501
Treasury shares	<b>(74,927)</b>	(74,927)
Other reserves	<b>(2,709)</b>	(6,133)
Retained earnings	<b>742,823</b>	669,119
Non-controlling interests	<b>5,228</b>	7,729
<b>Total equity</b>	<b>1,777,121</b>	1,428,703
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	<b>35,127</b>	29,082
Deferred tax liabilities	<b>3,186</b>	3,186
Deferred government grant	<b>26,067</b>	30,484
	<b>64,380</b>	62,752

	<i>Note(s)</i>	<b>As at 30 June 2017 (Unaudited) HKD'000</b>	As at 31 December 2016 (Audited) HKD'000
<b>Current liabilities</b>			
Trade and other payables	9	<b>264,398</b>	290,111
Current income tax liabilities		<b>12,960</b>	20,767
Borrowings		<b>619,509</b>	684,298
		<b>896,867</b>	995,176
<b>Total liabilities</b>		<b>961,247</b>	1,057,928
<b>Total equity and liabilities</b>		<b>2,738,368</b>	2,486,631
<b>Net current assets</b>		<b>738,253</b>	492,015
<b>Total assets less current liabilities</b>		<b>1,841,501</b>	1,491,455

**Na Qinglin**  
Director

**Tam Man Chi**  
Director

The notes on pages 36 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)*

	<b>(Unaudited)</b>	
	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	HKD'000
<b>Profit for the period</b>	<b>71,203</b>	44,271
<b>Other comprehensive expense</b>		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	<b>(6,520)</b>	(33,039)
<b>Total comprehensive income for the period</b>	<b>64,683</b>	11,232
<b>Attributable to:</b>		
Equity holders of the Company	<b>67,184</b>	12,346
Non-controlling interests	<b>(2,501)</b>	(1,114)
Total comprehensive income for the period	<b>64,683</b>	11,232

The notes on pages 36 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 equity HKD'000
	Attributable to equity holders of the Company							
	Share capital HKD'000	Share premium HKD'000	Treasury shares HKD'000	Other Reserves HKD'000	Retained earnings HKD'000	Total HKD'000	Non-controlling interests HKD'000	
<b>Balance at 1 January 2016</b>	7,319	807,830	(74,927)	51,373	538,516	1,330,111	4,718	1,334,829
<b>Comprehensive income</b>								
Profit for the period	—	—	—	—	45,010	45,010	(739)	44,271
<b>Other comprehensive income</b>								
Currency translation differences	—	—	—	(32,664)	—	(32,664)	(376)	(33,040)
Total other comprehensive income	—	—	—	(32,664)	—	(32,664)	(376)	(33,040)
<b>Total comprehensive income</b>	—	—	—	(32,664)	45,010	12,346	(1,115)	11,231
Exercise of share options	55	10,236	—	—	—	10,291	—	10,291
Share option scheme								
— value of services	—	—	—	1,458	—	1,458	—	1,458
Share award scheme								
— share purchased for restricted share award	—	—	—	6,318	—	6,318	—	6,318
<b>Balance at 30 June 2016</b>	7,374	818,066	(74,927)	26,485	583,526	1,360,524	3,603	1,364,127

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

The notes on pages 36 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)*

	<b>(Unaudited)</b>	
	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	<i>HKD'000</i>
Net cash from operating activities	<b>36,022</b>	140,644
Net cash used in investing activities	<b>(100,746)</b>	(44,783)
Net cash from financing activities	<b>195,802</b>	30,717
<b>Net increase in cash and cash equivalents</b>	<b>131,078</b>	126,578
Cash and cash equivalents at the beginning of the period	<b>169,312</b>	133,910
Exchange difference	<b>2,508</b>	(1,263)
<b>Cash and cash equivalents at the end of the period</b>	<b>302,898</b>	259,225

The notes on pages 36 to 54 are an integral part of these financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### 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 interim condensed consolidated financial statements are presented in Hong Kong dollars (“HKD”), unless otherwise stated. These interim condensed consolidated financial statements were approved for issue on 22 August 2017.

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

### 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

### 3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the adoption of the standards, amendments and interpretation issued by Hong Kong Institute of Certified Public Accountants mandatory for interim periods beginning 1 January 2017. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's result of operations or financial position.

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

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

### 4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

### 5. 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 single 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 2017 and 2016.

## 5. SEGMENT REPORTING (Continued)

- (a) Based on the places of shipment, revenue from external customers in the People's Republic of China (the "PRC"), Europe, North America and other Asian countries excluding the PRC is as follows:

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	<i>HKD'000</i>
The PRC	<b>430,978</b>	352,010
Europe	<b>168,952</b>	178,719
North America	<b>98,987</b>	123,475
Other Asian countries excluding the PRC	<b>181,954</b>	91,946
	<b>880,871</b>	746,150

- (b) The total non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2017 and 31 December 2016 are as follows:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HKD'000</b>	<i>HKD'000</i>
The PRC	<b>801,228</b>	732,863
Hong Kong	<b>155,274</b>	116,384
North America	<b>92,250</b>	96,262
	<b>1,048,752</b>	945,509

## 6. PROPERTY, PLANT AND EQUIPMENT

During the reporting period, property, plant and equipment purchased and disposed of by the Group were approximately HK\$49,896,000 (six-month period ended 30 June 2016: approximately HK\$46,848,000) and approximately HK\$91,000 (six-month period ended 30 June 2016: approximately HK\$1,031,000).

## 7. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2017 HKD'000	31 December 2016 HKD'000
Trade receivables (a)	447,633	461,778
Less: provision for impairment of receivables	(1,106)	(1,106)
<hr/>		
Trade receivables — net	446,527	460,672
Amounts due from related parties (a)	—	393
Bills receivable (b)	103,221	148,873
Prepayments	40,451	12,062
Interest receivables	5,923	1,675
Other receivables (c)	45,763	49,698
<hr/>		
	641,885	673,373
Less: non-current portion: other receivables (c)	(27,908)	(26,139)
<hr/>		
Current portion	613,977	647,234

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

**Trade receivables (including trade receivable due from related party)**

	As at	
	30 June 2017 HKD'000	31 December 2016 HKD'000
Within 30 days	203,489	194,624
31 to 60 days	93,588	139,292
61 to 90 days	96,207	82,839
91 to 180 days	47,452	38,240
181 to 365 days	3,948	5,225
Over 365 days	2,949	1,653
<hr/>		
	447,633	461,873

**7. TRADE AND OTHER RECEIVABLES (Continued)**

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

**Bills receivables**

	<b>As at</b>	
	<b>30 June 2017 HKD'000</b>	31 December 2016 HKD'000
Within 30 days	<b>18,674</b>	21,269
31 to 90 days	<b>57,372</b>	42,620
91 to 180 days	<b>27,152</b>	79,206
181 to 365 days	<b>23</b>	5,778
	<b>103,221</b>	148,873

- (c) Other receivables

Included in the other receivables is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD27,908,000 (2016: HKD26,139,000), pursuant to an agreement signed between 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 HKD27,908,000) 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.

## 8. SHARE CAPITAL

	<b>Authorized share capital – ordinary shares of par value of HKD0.01 each</b>	
	<i>Number of shares</i>	<i>HKD</i>
As at 30 June 2017 and 30 June 2016	<b>10,000,000,000</b>	<b>100,000,000</b>
	<b>Issued and fully paid up – ordinary shares of par value of HKD0.01 each</b>	
	<i>Number of shares</i>	<i>HKD'000</i>
As at 1 January 2016	731,931,240	7,319
Exercise of share options during the period (b)	5,472,000	55
As at 30 June 2016	737,403,240	7,374
<b>As at 1 January 2017</b>	<b>741,386,240</b>	<b>7,414</b>
<b>Issue of shares under placement (a)</b>	<b>50,000,000</b>	<b>500</b>
<b>Exercise of share options during the period (b)</b>	<b>6,387,000</b>	<b>64</b>
<b>As at 30 June 2017</b>	<b>797,773,240</b>	<b>7,978</b>

(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 2017 and 2016, 6,387,000 and 5,472,000 share options were exercised into 6,387,000 and 5,472,000 shares, respectively.

## 9. TRADE AND OTHER PAYABLES

	As at	
	30 June 2017 HKD'000	31 December 2016 HKD'000
Trade payables (a)	229,522	198,110
Accrued expenses	12,460	24,650
Payroll payables	13,706	44,315
Other payables	2,934	15,592
Amounts due to related parties	2,246	3,663
Advance from customers	3,530	3,781
	<b>264,398</b>	290,111

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

## Trade payables

	As at	
	30 June 2017 HKD'000	31 December 2016 HKD'000
Within 30 days	146,777	117,992
31 to 60 days	41,893	42,657
61 to 180 days	33,329	29,035
181 to 365 days	2,725	2,734
Over 365 days	4,798	5,692
	<b>229,522</b>	198,110

**10. REVENUE AND OTHER GAINS**

Revenue consists of sales of optical networking products, automation, sensing and industrials products, LiDAR products and coating and new materials products. Revenue and other gains recognized during the six months ended 30 June 2017 and 2016 are as follows:

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	<i>HKD'000</i>
Revenue		
Sales of goods	<b>880,871</b>	746,150
Other gains — net		
Government grants	<b>11,502</b>	3,503
Rental income	<b>646</b>	673
Fair value loss on derivative financial instruments	<b>—</b>	(1,000)
Others	<b>7,506</b>	3,497
	<b>19,654</b>	6,673
Total	<b>900,525</b>	752,823

**11. PROFIT BEFORE INCOME TAX**

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

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	<i>HKD'000</i>
Staff costs — excluding share options/share awards granted to directors and employees	<b>200,414</b>	167,412
Share options/share awards granted to directors and employees expenses	<b>14,548</b>	7,776
Raw materials consumed	<b>359,645</b>	332,309
Changes in inventories of finished goods and work in progress	<b>21,340</b>	10,631
Depreciation	<b>27,270</b>	26,166
Amortization	<b>1,719</b>	2,105
Provision for/(Reversal of) impairment for doubtful receivables	<b>19</b>	(101)
(Reversal of)/Provision for write-down of inventories	<b>(7,112)</b>	4,221

**12. STAFF COSTS — INCLUDING DIRECTORS' EMOLUMENTS**

	For the six months ended	
	30 June	
	2017	2016
	HKD'000	HKD'000
Salaries, bonus and other welfares	189,413	153,381
Pension — defined contribution plans	11,001	14,031
Share options/share awards granted to directors and employees ( <i>Note 11</i> )	14,548	7,776
	<b>214,962</b>	175,188

**13. FINANCE EXPENSES**

	For the six months ended	
	30 June	
	2017	2016
	HKD'000	HKD'000
Finance expenses		
— Bank borrowings and other bank charge	(11,618)	(9,751)
— Net exchange loss	(6,344)	(772)
	<b>(17,962)</b>	(10,523)
Finance income		
— Interest income, derived from bank deposits	4,417	2,506
Finance expenses, net	<b>(13,545)</b>	(8,017)

**14. INCOME TAX EXPENSES**

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	HKD'000
Current income tax		
— Hong Kong profits tax <i>(b)</i>	—	—
— PRC corporate income tax <i>(c)</i>	<b>11,000</b>	9,719
— Canada profit tax <i>(d)</i>	<b>5,084</b>	—
Total current income tax	<b>16,084</b>	9,719
Deferred income tax	<b>1,204</b>	(1,124)
Income tax expenses	<b>17,288</b>	8,595

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

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

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

In addition, O-Net 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 EIT tax rate of 15%.

(d) The applicable tax rate for ITF is 26.9%.

**15. DIVIDENDS**

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2017 (30 June 2016: Nil).

**16. 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.

	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
Profit attributable to equity holders of the Company for the six months ( <i>HKD'000</i> )	<b>73,704</b>	45,011
Weighted average number of ordinary shares in issue ( <i>thousands shares</i> )	<b>756,319</b>	707,890
Basic earnings per share ( <i>HKD per share</i> )	<b>0.10</b>	0.06

**(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 and share awards granted by the Company (collectively forming the denominator for computing the diluted earnings per share).

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

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

**16. EARNINGS PER SHARE (Continued)****(b) Diluted (Continued)**

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	2016
Profit attributable to equity holders of the Company for the six months <i>(HKD'000)</i>	<b>73,704</b>	45,011
Weighted average number of ordinary shares in issue <i>(thousands shares)</i>	<b>756,319</b>	707,890
Adjustments for exercise of share options and share awards <i>(thousands shares)</i>	<b>38,437</b>	10,782
Weighted average number of ordinary shares for the calculation of diluted earnings per share <i>(thousands shares)</i>	<b>794,756</b>	718,672
Diluted earnings per share <i>(HKD per share)</i>	<b>0.09</b>	0.06

**17. 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:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HKD'000</b>	HKD'000
Not later than one year	<b>6,511</b>	9,121
Later than one year	<b>12,944</b>	18,583
	<b>19,455</b>	27,704

**17. COMMITMENTS (Continued)****Capital Commitments**

	As at	
	<b>30 June 2017 HKD'000</b>	31 December 2016 HKD'000
Capital expenditure contracted for but not provided	<b>4,012</b>	8,298

**18. 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 2017 and 31 December 2016:

	For the six months 30 June	
	<b>2017 HKD'000</b>	2016 HKD'000
<b>Sales of goods</b>		
Butterfly	<b>489</b>	224
<b>Rental income received from a related party</b>		
Butterfly	<b>731</b>	673

**18. RELATED PARTY TRANSACTIONS (Continued)****(c) Key management personnel remuneration**

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

	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HKD'000</b>	HKD'000
Salaries, bonus and other welfares	<b>19,292</b>	8,951
Pension — defined contribution plans	<b>261</b>	70
Share options/share awards expenses	<b>2,476</b>	1,766
	<b>22,029</b>	10,787

**19. SHARE-BASED PAYMENTS****(a) Share Option Scheme***(i) 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:

<b>Date of grant</b>	<b>Number of share options granted</b>	<b>Number of share options outstanding as at 30 June 2017</b>	<b>Exercise price</b>	<b>Vesting date</b>
10 October 2011	Tranches 1, 2, 3, 4 & 5: 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: 4,000,000)			

## 19. SHARE-BASED PAYMENTS (Continued)

## (a) Share Option Scheme (Continued)

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

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2017	Exercise price	Vesting date
1 June 2012	Tranche 1: 14,929,000	8,162,000	HKD1.910	Tranche 1 (for certain directors and employees):
	Tranche 2: 1,360,000			(i) 40% of the Replacement Options shall be exercisable from 2 June 2012;
	Tranche 3: 4,390,000			(ii) another 20% of the Replacement Options shall be exercisable from 2 June 2013;
	Tranche 4: 13,172,000			(iii) another 20% of the Replacement Options shall be exercisable from 2 June 2014; and
	(Total: 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.

**19. SHARE-BASED PAYMENTS (Continued)****(a) Share Option Scheme (Continued)***(i) Post-IPO Share Option Scheme (Continued)*

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2017	Exercise price	Vesting date
22 April 2013	Tranche 1: 200,000  Tranche 2: 2,350,000  Tranche 3: 350,000  (Total: 2,900,000)	1,200,000	HKD1.680	Tranche 1 (for certain employees): vesting period commences at 12 February 2014, equally over a period of 5 years.  Tranche 2 (for certain employees): vesting period commences at 3 March 2014, equally over a period of 5 years.  Tranche 3 (for certain employees): vesting period commences at 7 April 2014, equally over a period of 5 years.
11 September 2013	Tranches 1, 2, 3, 4 & 5: 400,000  (Total: 2,000,000)	—	HKD1.708	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 11 September 2014, equally over a period of 5 years.
25 September 2013	Tranches 1, 2, 3, 4 & 5: 70,000  Total: 350,000)	140,000	HKD1.652	Tranches 1, 2, 3, 4 & 5 (for certain employees): vesting period commences at 13 August 2014, equally over a period of 5 years.
16 October 2013	Tranches 1, 2, 3 & 4: 1,000,000  (Total: 4,000,000)	4,000,000	HKD1.628	Tranches 1, 2, 3 & 4 (for certain employees): vesting period commences at 14 October 2014, equally over a period of 4 years.
8 November 2013	Tranches 1, 2, 3, 4 & 5: 2,060,000  (Total: 10,300,000)	3,342,000	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.

**19. SHARE-BASED PAYMENTS (Continued)****(a) Share Option Scheme (Continued)***(i) Post-IPO Share Option Scheme (Continued)*

Date of grant	Number of share options granted	Number of share options outstanding as at 30 June 2017	Exercise price	Vesting date
9 April 2014	Tranches 1, 2, 3, 4 & 5: 374,000  (Total: 1,870,000)	894,000	HKD2.40	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.
		19,738,000		

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

*(ii) Movements in the number of share options outstanding*

	For the six months ended 30 June	
	2017 Options '000	2016 Options '000
At 1 January	28,099	38,959
Granted	—	—
Forfeited	(1,974)	(1,050)
Exercised	(6,387)	(5,472)
At 30 June	19,738	32,437

As at 30 June 2017, out of the 19,738,000 outstanding options (2016: 32,437,000 options), 23,545,000 options (2016: 20,465,000 options) were exercisable. 6,387,000 options were exercised in 2017 (2016: 5,472,000 options).

**19. SHARE-BASED PAYMENTS (Continued)****(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 2017, no restricted shares (30 June 2016: Nil) were purchased by the trustee from the market and no new shares (30 June 2016: Nil) were issued by the Company for the purpose of the Award Scheme.

**20. SUBSEQUENT EVENT**

On 2 August 2017, O-Net Coating and Materials Technologies (HK) Limited ("O-Net Coating"), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the "JV Agreement") with Butterfly Technologies (Hong Kong) Limited ("Butterfly") in relation to the formation of 昂紅科技 (深圳) 有限公司 (O-Net Butterfly Technologies (Shenzhen) Company Limited) (the "JV Company"). The total registered capital of the JV Company is HKD10,000,000 with each of O-Net Coating and Butterfly investing HKD5,000,000.