O-NET TECHNOLOGIES (GROUP) LIMITED
昂 納 科 技 （ 集 團 ） 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 877)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

RESULTS

The board (the "Board") of directors (the "Directors") of O-Net Technologies (Group) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 together with the comparative figures. The unaudited condensed consolidated interim financial statements have not been audited or reviewed by the Company's auditor, but have been reviewed by the Company's audit committee (the "Audit Committee").

FINANCIAL HIGHLIGHTS

- Impressive revenue growth of 37.1%, outpaced market growth;
- Gross profit from Optical Networking and Smart Manufacturing Applications reported an admirable growth of 22.9%, with an accelerated growth in the second quarter;
- Improvement in operating expenses ("Opex") to revenue ratio by 3.3 percentage points, as a result of effective budget management and operating leverage;
- Significant improvement in operating cash inflows by 6.3 times over the preceding period, and turning from "outflows of HKD20.3 million in FY2017" to "inflows of HKD262.8 million during the first half of 2018"; and
- Net gearing ratio was lowered to 3.2%, down by 8.9 percentage points.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil), but the Board will take into account the then financial position and cash flows of the Group as at and for the year ending 31 December 2018, for the consideration of any final dividend to be proposed and declared.

	For the Six Months Ended 30 June 2018 *(HKD'million)*	For the Six Months Ended 30 June 2017 *(HKD'million)*	Changes %/ppt
Consolidated Revenue	**1,207.6**	880.9	37.1
Including:			
Optical Networking	**985.8**	725.0	36.0
Smart Manufacturing Applications	**160.0**	98.1	63.1
Consolidated Gross Profit	**362.3**	317.8	14.0
Including:			
Gross Profit attributable to Optical Networking and Smart Manufacturing Applications	**361.0**	293.7	22.9
Opex to Revenue %	**23.4**	26.7	-3.3 ppt
Profit before Income Tax	**127.9**	88.5	44.5
Profit Attributable to Equity Holders of the Company	**111.9**	73.7	51.8
Non-GAAP Net Profit Attributable to Equity Holders of the Company	**132.6**	82.9	60.0
EBITDA	**195.6**	124.7	56.9
Operating Cash Flow	**262.8**	36.0	630.0
Capital Expenditure	**98.5**	107.7	-8.5

	As at 30 June 2018 *(HKD'million)*	As at 31 December 2017 *(HKD'million)*	Changes %/ppt
Net Debt	**67.7**	245.6	-72.4
Net Gearing Ratio %	**3.2**	12.1	-8.9 ppt

Other Items to Consider in Comparison:

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

BUSINESS HIGHLIGHTS

- *Optical Networking:*

  - The revenue growth of 36% outpaced the market during the first half of 2018;

  - Strong growth of Data Center Interconnect ("DCI") market continued to drive the growth;

  - Winning a bigger share of business with traditional customers and with a few new ones;

  - Sales revenue of active components grew significantly by 75% to approximately HKD100 million; and

  - Qualification of products by customers for 5G network deployment is in the process, indicating an additional revenue stream in the near future as upcoming 5G network deployment will further accelerate demand for optical networking products and drive their upgrade cycle.

- *Smart Manufacturing Applications:*

  - Promising growth of revenue of 63.1%, with a revenue contribution of 13.2% i.e., up by 2.1 percentage points, during the first half of 2018;

  - Capitalizing on the R&D capabilities of ITF Technologies Inc. ("ITF"), the synergies after the acquisition, and the Group's commitment by offering a broad range of unique single-mode, multi-kilowatt fiber-based components and systems necessary for the fiber lasers, the Industrial Laser Business continued to report a promising revenue growth rate of 54.7%; and

  - Targeting to be a leading domestic machine vision solutions provider by providing more automation solutions, such as offering advanced machine vision systems and sensing products, the machine vision business grew significantly at 145.0% as compared with the corresponding period last year.

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

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

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

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

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

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

GOING FORWARD

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

- In respect of the optical networking business, it will continue to introduce the next generation of innovative products to seize opportunities from the rapidly evolving optical components market, driven by the growth engines including demand from the cloud data center and DCI, and upcoming deployment of 5G wireless communications.

- As for the smart manufacturing applications, the Group envisages its various sectors will grow impressively to become significant businesses, driven by the advent of its core technologies. The Group is more optimistic about developments on the machine vision systems and fiber laser systems fronts, most notably launching our state-of-art machine vision systems and our unique single-mode multi-kilowatt fiber laser products with better beam quality, as each of these businesses will serve as catalysts for its progress and growth.

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

CONDENSED CONSOLIDATED INCOME STATEMENT

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

		(Unaudited) For the six months ended 30 June	
		2018	2017
	Note(s)	***HKD'000***	*HKD'000*
Revenue	*3*	**1,207,636**	880,871
Cost of sales		**(845,367)**	(563,023)
Gross profit		**362,269**	317,848
Other gains – net		**60,451**	19,654
Selling and marketing costs		**(45,301)**	(34,591)
Research and development expenses		**(131,318)**	(115,437)
Administrative expenses		**(104,718)**	(85,438)
Finance expenses – net	*7*	**(12,921)**	(13,545)
Share of result of a joint venture		**(609)**	–
Profit before income tax	*6*	**127,853**	88,491
Income tax expenses	*8*	**(18,470)**	(17,288)
Profit for the period		**109,383**	71,203
Profit attributable to:			
Equity holders of the Company		**111,854**	73,704
Non-controlling interests		**(2,471)**	(2,501)
		109,383	71,203
Earnings per share for profit attributable to equity holders of the Company *(HKD per share)*			
– Basic	*10*	**0.14**	0.10
– Diluted	*10*	**0.14**	0.09

CONDENSED CONSOLIDATED BALANCE SHEET

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

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

	Note(s)	As at 30 June 2018 (Unaudited) HKD'000	As at 31 December 2017 (Audited) HKD'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**8,007**	7,985
Share premium		**1,104,197**	1,100,025
Treasury shares		**(74,927)**	(74,927)
Other reserves		**108,593**	120,442
Retained earnings		**989,851**	877,986
		2,135,721	2,031,511
Non-controlling interests		**(885)**	1,584
Total equity		**2,134,836**	2,033,095
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**2,455**	2,498
Deferred government grants		**13,969**	15,107
		16,424	17,605
Current liabilities			
Trade and other payables	*5*	**548,889**	366,769
Current income tax liabilities		**21,046**	32,752
Borrowings		**556,904**	653,667
		1,126,839	1,053,188
Total liabilities		**1,143,263**	1,070,793
Total equity and liabilities		**3,278,099**	3,103,888

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited) For the six months ended 30 June	
	2018	2017
	HKD'000	*HKD'000*
Profit for the period	**109,383**	71,203
Other comprehensive expense		
Item that may be reclassified to profit or loss		
Currency translation differences	**(11,838)**	(6,520)
Total comprehensive income for the period	**97,545**	64,683
Attributable to:		
Equity holders of the Company	**100,014**	67,184
Non-controlling interests	**(2,469)**	(2,501)
Total comprehensive income for the period	**97,545**	64,683

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

O-Net Technologies (Group) Limited (the “Company”) was incorporated in the Cayman Islands on 12 November 2009, as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company and has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”) since 29 April 2010 (the “IPO”). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

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

2. BASIS OF PREPARATION AND PRESENTATION

This condensed consolidated interim financial statements for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This condensed consolidated interim financial statements does not contain all the notes of the type normally included in the annual consolidated financial statements. Accordingly, this condensed consolidated interim financial statements is to be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

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

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

HKFRS 9 Financial Instruments

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

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

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

3. SEGMENT REPORTING

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

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

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

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

	For the six months ended 30 June	
	2018	2017
	HKD'000	*HKD'000*
The PRC	**456,174**	430,978
Europe	**369,778**	168,952
North America	**177,969**	98,987
Other Asian countries excluding the PRC	**203,715**	181,954
	1,207,636	880,871

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

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

4. TRADE AND OTHER RECEIVABLES

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

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

Trade receivables (including trade receivable due from related party)

	As at	
	30 June	31 December
	2018	2017
	HKD'000	*HKD'000*
Within 30 days	**298,310**	267,158
31 to 60 days	**208,313**	192,290
61 to 90 days	**227,057**	165,609
91 to 180 days	**42,390**	60,589
181 to 365 days	**8,282**	21,554
Over 365 days	**7,478**	1,241
	791,830	708,441

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

Bills receivable

	As at	
	30 June	31 December
	2018	2017
	HKD'000	*HKD'000*
Within 30 days	**15,343**	12,874
31 to 90 days	**12,166**	98,042
91 to 180 days	**12,258**	78,625
181 to 365 days	**586**	3,521
	40,353	193,062

(c) **Other non-current receivables**

Included in the other receivable is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD27,733,000 (2017: HKD28,005,000), pursuant to an agreement signed between O-Net Communications (Shenzhen) Limited ("O-Net Shenzhen"), a subsidiary of the Company, and IPI in 2014. Under the agreement, O-Net Shenzhen will ensure stable supply of goods by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD27,733,000) to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum.

The remaining balance amounting to HKD43,035,000 (2017: HKD45,208,000) is the loan provided to 3SP. The Group has agreed to acquire the entire issued shares of 3SP, and the loan will become shareholder's loan upon completion.

5. TRADE AND OTHER PAYABLES

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

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

Trade payables

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

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

	As at	
	30 June	31 December
	2018	2017
	HKD'000	*HKD'000*
Within 30 days	**3,570**	477
31 to 90 days	**13,639**	3,499
91 to 180 days	**19,388**	12,995
181 to 365 days	**4,697**	–
	41,294	16,971

6. PROFIT BEFORE INCOME TAX

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

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

7. FINANCE EXPENSES – NET

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

8. INCOME TAX EXPENSES

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

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

(b) The applicable federal income tax rate for O-Net Communications (USA), Inc. is 34%, and the applicable California state corporate income tax rate is 8.84%.

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

(d) The applicable tax rate for ITF Technologies, Inc. and ArtIC Photonics, Inc. is 26.9% and 26.5% respectively.

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

9. DIVIDENDS

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

10. EARNINGS PER SHARE

(a) Basic

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

	For the six months ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**111,854**	73,704
Weighted average number of ordinary shares in issue *(thousands shares)*	**800,189**	756,319
Basic earnings per share *(HKD per share)*	**0.14**	0.10

(b) Diluted

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

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS REVIEW

Optical Networking Businesses

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

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

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

Telecommunications Business

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

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

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

Upcoming 5G Network Deployment

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

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

Data-communications Business

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

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

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

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

Strong Growth of DCI market

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

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

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

Prospects

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

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

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

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

Smart Manufacturing Applications Businesses

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

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

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

Industrial Laser Business

Revenue of HKD84.3 million, up by 54.7%

Since 2015, the Group has successfully tapped the industrial laser industry through the acquisition of ITF, a leading supplier of ultra-reliable fiber-optic components, such as Fiber Bragg Grating (FBG) and high-power fused components and modules for fiber laser systems, which has addressed several applications for industrial fiber lasers across the different power and wavelength spectrums, including macro/micro material processing, marking and engraving, and welding applications since 2006.

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

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

Prospects

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

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

Machine Vision Business

Revenue of HKD24.5 million, up by 145.0%

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

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

Prospects

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

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

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

Automation Solutions for E-cigarettes Business

Revenue of HKD39.9 million, up by 47.2%

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

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

Prospects

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

Other Smart Manufacturing Applications Business

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

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

FINANCIAL REVIEW

Revenue

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

Optical Networking Businesses

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

Smart Manufacturing Applications Businesses

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

Machine Vision Business

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

Automation Solutions for E-cigarette Business

In this segment, revenue of HKD39.9 million was recorded in the first half of 2018, representing an increase of HKD12.8 million, or 47.2% as compared with that of HKD27.1 million in the first half of 2017. The increase in revenue in the first half of 2018 was primarily attributable to the greater demand for heating coils from the major E-cigarette makers.

Industrial Laser Business

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

Gross Profit

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

Other Gains

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

Selling and Marketing Costs

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

Research and Development Expenses

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

Administrative Expenses

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

Finance Income/Expenses

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

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

Income Tax Expenses

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

PRC EIT is based on the assessable income of entities within the Group that are incorporated in the PRC, and adjusted for items which are not assessable or deductible for PRC EIT purposes.

Canada profits tax is based on the taxable income of the entity within the Group that is incorporated in Canada based on the applicable income tax rate.

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

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2018, the Group had cash and bank balances of approximately HKD489.2 million (31 December 2017: HKD408.1 million). The significant increase was due to decrease in trade and other receivables and increase in trade and other payables. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

PLEDGE ON GROUP ASSETS

As at 30 June 2018, the Group had bank deposits of HKD176.7 million pledged to secure the bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2018, the Group had committed to the expansion of existing plants to enhance its production capacity. As at 30 June 2018, the Group had contractual capital commitments of approximately HKD3.2 million (31 December 2017: HKD15.9 million). As of 31 December 2017, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

CAPITAL EXPENDITURE

For the first half of 2018, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD98.5 million (30 June 2017: HKD87.7 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

EMPLOYEE BENEFIT

As at 30 June 2018, the Group had a total of 4,901 employees (30 June 2017: 4,024). The Group's staff costs (including Directors' fees) amounted to HKD305.0 million (30 June 2017: HKD215.0 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice. The Group has provided its employees medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

A share option scheme, which was adopted before the IPO (the "Pre-IPO Share Option Scheme"), and another share option scheme, which was adopted by the Company for issuance of share options after the IPO (the "Post-IPO Share Option Scheme"), are both equity-settled, share-based compensation schemes, under which the entity receives the services from eligible participants as consideration for equity instruments (options). Eligible participants include any Director, employee, consultant, professional, customer, supplier, agent, partner, adviser or contractor to the Company, or a company in which the Company holds an interest or a subsidiary of such company.

Under the Pre-IPO Share Option Scheme, the shares authorized for the issuance of options are the shares of a shareholder of the Company. Under the Post-IPO Share Option Scheme, the shares authorized for issuance of options are the shares of the Company.

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. For the first half of 2018, no option was granted (30 June 2017: same).

The Company adopted a restricted share award scheme ("Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. For the first half of 2018, no restricted shares were purchased by the trustee from the market and no new shares were issued by the Company for the purpose of the Award Scheme (30 June 2017: same).

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

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

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

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

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

Save as aforesaid, the Group did not have any significant investment held nor there were any other material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2018.

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

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

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Other than the share options of the Company held by the Directors under the Post-IPO Share Option Scheme, at no time for the first half of 2018 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

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 2018.

CORPORATE GOVERNANCE PRACTICES

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the six months ended 30 June 2018.

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

During the six months ended 30 June 2018, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviation as explained below:

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

Save as mentioned above, in the opinion of the Directors, the Company has met the relevant code provisions set out in the CG Code during the six months ended 30 June 2018.

AUDIT COMMITTEE

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and to review the risk management and internal control systems of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2018 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 21 August 2018

As at the date of this announcement, the executive Director is Mr. Na Qinglin, the non-executive Directors are Mr. Chen Zhujiang, Mr. Huang Bin and Mr. Mo Shangyun, and the independent non-executive Directors are Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei.