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 2019

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 2019 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").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		(Unaudited) For the six months ended 30 June	
		2019	2018
	Note(s)	***HKD'000***	*HKD'000*
Revenue	*4*	**1,403,363**	1,207,636
Cost of sales		**(989,202)**	(845,367)
Gross profit		**414,161**	362,269
Other gains — net		**22,096**	60,451
Selling and marketing costs		**(45,239)**	(45,301)
Research and development expenses		**(154,750)**	(131,318)
Administrative expenses		**(113,004)**	(104,718)
Operating profit		**123,264**	141,383
Finance expenses — net	*8*	**(15,355)**	(12,921)
Share of losses of investments accounted for using equity method		**(4,615)**	(609)
Profit before income tax	*7*	**103,294**	127,853
Income tax expenses	*9*	**(23,003)**	(18,470)
Profit for the period		**80,291**	109,383
Profit attributable to:			
Equity holders of the Company		**83,114**	111,854
Non-controlling interests		**(2,823)**	(2,471)
		80,291	109,383
Earnings per share for profit attributable to equity holders of the Company *(HKD per share)*			
— Basic	*11*	**0.10**	0.14
— Diluted	*11*	**0.10**	0.14

CONDENSED CONSOLIDATED BALANCE SHEET

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

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

	Note(s)	As at 30 June 2019 (Unaudited) HKD'000	As at 31 December 2018 (Audited) HKD'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**8,025**	8,020
Share premium		**1,107,726**	1,105,589
Treasury shares		**(60,847)**	(60,847)
Other reserves		**69,163**	56,918
Retained earnings		**1,207,732**	1,139,778
		2,331,799	2,249,458
Non-controlling interests		**(4,817)**	(1,994)
Total equity		**2,326,982**	2,247,464
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**27,472**	11,953
Leased liabilities		**64,117**	—
Deferred government grants		**10,694**	11,676
		102,283	23,629
Current liabilities			
Trade and other payables	6	**500,982**	428,750
Contract liabilities		**13,589**	9,997
Leased liabilities		**12,840**	—
Current income tax liabilities		**44,101**	21,750
Borrowings		**549,260**	487,770
		1,120,772	948,267
Total liabilities		**1,223,055**	971,896
Total equity and liabilities		**3,550,037**	3,219,360

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION AND PRESENTATION

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

HKFRS 16 Leases

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

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

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

Date of adoption by the Group

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

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

4. SEGMENT REPORTING

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

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

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

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

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

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

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

5. TRADE AND OTHER RECEIVABLES

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

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

(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
	2019	2018
	HKD'000	*HKD'000*
Within 30 days	**9,595**	15,552
31 to 90 days	**16,947**	33,989
91 to 180 days	**22,733**	36,768
181 to 365 days	**362**	663
	49,637	86,972

(c) **Other receivables**

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

6. TRADE AND OTHER PAYABLES

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

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

Trade payables

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

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

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

7. PROFIT BEFORE INCOME TAX

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

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

8. FINANCE EXPENSES — NET

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

9. INCOME TAX EXPENSES

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

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

(b) The applicable federal income tax rate for O-Net Communications (USA), Inc. is 21%, and the applicable California state corporate income tax rate is 8.84%.

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

(d) The applicable tax rate for ITF Technologies, Inc. and ArtIC Photonics, Inc. is 26.7% and 26.5% respectively.

(e) The applicable tax rate for 3SP Technologies ("3SP") is 31%.

(f) O-Net Shenzhen and O-Net Automation Technology (Shenzhen) Limited applied to the relevant authorities in the PRC and have successfully been granted the qualification as High and New Technology Enterprises in the PRC. They are entitled to a concessionary enterprise income tax rate of 15%.

10. DIVIDENDS

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

11. EARNINGS PER SHARE

(a) Basic

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

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

(b) Diluted

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

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

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

12. BUSINESS COMBINATIONS

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

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

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

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

Consideration	*HKD'000*
— Cash	155,095
Total consideration	155,095
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	80,784
Other non-current assets	11,378
Right-of-use assets	39,028
Intangible assets	71,130
Financial assets at fair value through other comprehensive income	11,127
Inventories	54,173
Trade and other receivables	49,579
Cash and cash equivalents	12,561
Deferred tax liabilities	(16,148)
Trade and other payables	(213,440)
Lease liabilities	(39,846)
Total identifiable net assets	60,326
Goodwill	94,769
Total consideration	155,095

Included in the goodwill of HKD94,769,000 recognised above was the value of expected synergies arising from combining operations of the Group and API Group and assembled workforce of API Group. None of the goodwill recognised was expected to be deductible for income tax purposes.

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

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

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

13 SUBSEQUENT EVENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

INDUSTRY AND BUSINESS REVIEW

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

Optical Networking Business

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

Industrial and Sensing Businesses

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

Automation Solutions Business for E-cigarette Business

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

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

Machine Vision Business

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

Industrial Laser Business

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

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

LiDAR Business

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

Consumer Electronics Business

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

FINANCIAL REVIEW

Revenue

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

Optical Networking Business

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

Industrial and Sensing Businesses

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

Machine vision business

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

Automation Solutions Business for E-cigarettes

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

Industrial laser business

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

LiDAR business

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

Consumer Electronics Business

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

Gross Profit and Gross Profit Margin

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

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

Other Gains

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

Selling and Marketing Costs

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

Research and Development Expenses

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

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

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

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

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

Administrative Expenses

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

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

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

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

Finance Expenses/Income

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

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

Share of the Result of Associates

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

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

Share of Loss of a Joint Venture

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

Income Tax Expenses

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

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

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

NON-GAAP FINANCIAL PERFORMANCE

Non-GAAP Profit Analysis

Reconciliation of Non-GAAP Financial Measures

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

Company's cash requirements for ongoing operating activities. These non-GAAP financial measures have been reconciled to the nearest comparable measures as required under HKFRS issued by the HKICPA.

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

* Profit attributable to Equity Holders of the Company

FUTURE PROSPECTS

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

Optical Networking Business

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

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

Industrial and Sensing Businesses

While China's 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 industrial and sensing businesses by providing automation solutions, as well as offering its machine vision systems. The Group is confident that its automation, sensing and 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. To address this high-potential market, ITF continues to be uniquely positioned by offering a broad range of fiber-based components and modules necessary for the operation of fiber lasers — including high power fiber lasers. Coupled with the ongoing development and introduction of additional building blocks for multi-kilowatt fiber lasers, the Group is positioning itself as a key enabler in the transition of materials processing markets to the fiber laser sector to include metal cutting and welding, as well as marking and engraving applications. On this front, the Group expects to continue to outpace the market growth rate and expand its scale of business.

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

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

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

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2019, the Group had cash and cash equivalents of approximately HKD520.5 million (31 December 2018: HKD341.6 million). The increase was due to cash generated from operation, decrease of pledged bank deposits and increase in bank borrowings. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

PLEDGE ON GROUP ASSETS

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2019, the Group had contractual capital commitments of approximately HKD80.0 million (31 December 2018: HKD3.2 million). As of 30 June 2019, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

CAPITAL EXPENDITURE

For the first half of 2019, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD97.4 million (30 June 2018: HKD98.5 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

EMPLOYEE BENEFIT

As at 30 June 2019, the Group had a total of 5,794 employees (30 June 2018: 4,901). The Group's staff costs (including Directors' fees) amounted to HKD331.8 million (30 June 2018: HKD305.0 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice. The Group has provided its employees medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

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

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

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

The Post-IPO Share Option Scheme was adopted on 9 April 2010 to retain staff members who have made contributions to the success of the Group. For the first half of 2019, no option was granted (30 June 2018: same).

The Company adopted a restricted share award scheme ("Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. For the first half of 2019, no restricted shares were purchased by the trustee from the market and no new shares were issued by the Company for the purpose of the Award Scheme (30 June 2018: Nil).

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

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil), but the Board will take into account the then financial position and cash flows of the Group as at and for the year ending 31 December 2019, for the consideration of any final dividend to be proposed and declared in accordance with the dividend policy of the Group.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

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

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

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

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

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

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

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

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Other than the share options of the Company held by the Directors under the Post-IPO Share Option Scheme, at no time for the first half of 2019 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE PRACTICES

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the six months ended 30 June 2019.

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

During the six months ended 30 June 2019, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviation as explained below:–

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

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

AUDIT COMMITTEE

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and to review the risk management and internal control systems of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2019 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 20 August 2019

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.