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 2017

RESULTS

The board (the "Board") of directors (the "Directors") of O-Net Technologies (Group) Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 together with the comparative figures. The unaudited interim condensed consolidated 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 INCOME STATEMENT

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

		(Unaudited) For the six months ended 30 June	
		2017	2016
	Note(s)	***HKD'000***	*HKD'000*
Revenue	*4*	**880,871**	746,150
Cost of sales		**(563,023)**	(508,652)
Gross profit		**317,848**	237,498
Other gains — net		**19,654**	6,673
Selling and marketing costs		**(34,591)**	(31,349)
Research and development expenses		**(115,437)**	(81,412)
Administrative expenses		**(85,438)**	(69,690)
Operating profit		**102,036**	61,720
Finance expenses	*8*	**(13,545)**	(8,017)
Share of result of a joint venture		**—**	(837)
Profit before income tax	*7*	**88,491**	52,866
Income tax expenses	*9*	**(17,288)**	(8,595)
Profit for the period		**71,203**	44,271
Profit attributable to:			
Equity holders of the Company		**73,704**	45,011
Non-controlling interests		**(2,501)**	(740)
		71,203	44,271
Earnings per share for profit attributable to equity holders of the Company *(HKD per share)*			
— Basic	*11*	**0.10**	0.06
— Diluted	*11*	**0.09**	0.06

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Note(s)	As at 30 June 2017 (Unaudited) HKD'000	As at 31 December 2016 (Audited) HKD'000
ASSETS			
Non-current assets			
Land use right		**21,585**	23,826
Property, plant and equipment		**743,302**	701,835
Intangible assets		**85,590**	88,104
Deferred income tax assets		**11,201**	12,405
Available-for-sale financial assets		**15,290**	15,290
Derivative financial instruments		**97**	97
Other non-current receivable	5	**27,908**	26,139
Prepayments for acquisition of property, plant and equipment		**17,257**	—
Other non-current assets		**181,018**	131,744
		1,103,248	999,440
Current assets			
Inventories		**337,907**	269,779
Trade receivables	5	**446,527**	460,672
Other receivables	5	**64,229**	37,689
Notes receivables	5	**103,221**	148,873
Other current assets		**42,549**	18,077
Financial assets at fair value through profit or loss		**18,394**	18,394
Pledged bank deposits		**315,795**	354,369
Term deposits with initial term of over three months		**3,600**	10,026
Cash and cash equivalents		**302,898**	169,312
		1,635,120	1,487,191
Total assets		**2,738,368**	2,486,631

	Note(s)	**As at 30 June 2017 *(Unaudited)* *HKD'000***	As at 31 December 2016 *(Audited)* *HKD'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**7,978**	7,414
Share premium		**1,098,728**	825,501
Treasury shares		**(74,927)**	(74,927)
Other reserves		**(2,709)**	(6,133)
Retained earnings		**742,823**	669,119
Non-controlling interests		**5,228**	7,729
Total equity		**1,777,121**	1,428,703
LIABILITIES			
Non-current liabilities			
Borrowings		**35,127**	29,082
Deferred tax liabilities		**3,186**	3,186
Deferred government grant		**26,067**	30,484
		64,380	62,752
Current liabilities			
Trade and other payables	*6*	**264,398**	290,111
Current income tax liabilities		**12,960**	20,767
Borrowings		**619,509**	684,298
		896,867	995,176
Total liabilities		**961,247**	1,057,928
Total equity and liabilities		**2,738,368**	2,486,631
Net current assets		**738,253**	492,015
Total assets less current liabilities		**1,841,501**	1,491,455

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited) For the six months ended 30 June	
	2017	2016
	HKD'000	*HKD'000*
Profit for the period	**73,704**	44,271
Other comprehensive expense		
Item that may be reclassified to profit or loss		
Currency translation differences	**(6,520)**	(33,039)
Total comprehensive income for the period	**67,184**	11,232
Attributable to:		
Equity holders of the Company	**69,685**	12,346
Non-controlling interests	**(2,501)**	(1,114)
Total comprehensive income for the period	**67,184**	11,232

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

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

2. BASIS OF PREPARATION

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

3. ACCOUNTING POLICIES

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

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

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

4. SEGMENT REPORTING

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

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

All the reported revenue from sales of goods were made to external customers for the six months ended 30 June 2017 and 2016.

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

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

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

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

5. TRADE AND OTHER RECEIVABLES

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

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

Trade receivables (including trade receivable due from related party)

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

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

Bills receivables

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

(c) **Other receivables**

Included in the other receivables is a balance due from Integrated Photonics, Inc. ("IPI"), a third-party supplier of the Group amounting to HKD27,908,000 (2016: HKD26,139,000), pursuant to an agreement signed between O-Net Shenzhen, a subsidiary of the Company, and IPI in 2014. Under the agreement, O-Net Shenzhen will ensure stable supply of goods by IPI from 2014 to 2019. In return, O-Net Shenzhen paid USD3,434,000 (equivalent to HKD27,908,000) to purchase 2,600 troy ounces of platinum ("Platinum") and deliver the Platinum to IPI for production capacity expansion purpose. IPI will keep the Platinum insured against loss or damage at all times during the term until IPI has repaid the full amount of the cost of Platinum to O-Net Shenzhen after 5 years. As security for such receivable, O-Net Shenzhen was granted a first priority lien by IPI over the Platinum.

6. TRADE AND OTHER PAYABLES

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

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

Trade payables

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

7. PROFIT BEFORE INCOME TAX

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

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

8. FINANCE EXPENSES

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

9. INCOME TAX EXPENSES

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

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

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

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

In addition, O-Net Shenzhen applied to the relevant authorities in the PRC and has successfully been granted the qualification as a High and New Technology Enterprise in the PRC. It is entitled to a concessionary EIT tax rate of 15%.

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

10. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2017 (30 June 2016: 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	
	2017	2016
Profit attributable to equity holders of the Company for the six months *(HKD'000)*	**73,704**	45,011
Weighted average number of ordinary shares in issue *(thousands shares)*	**756,319**	707,890
Basic earnings per share *(HKD per share)*	**0.10**	0.06

(b) Diluted

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

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

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

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

12. SUBSEQUENT EVENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

During the past financial year, the Group has continued to bolster its position as a leader in the provision of high-technology products and solutions as it further expanded from its origin as a supplier of passive optical networking products. In addition to launching high-speed optical transceivers for addressing the needs of both intra- and inter- data center connections, it has also made significant strides in other emerging fast-growth segments such as laser chips for pump lasers and high-speed optical transceivers, as well as laser chips and optical components for Light Detection And Ranging ("LiDAR") through the acquisition of 3SP Technologies ("3SP"), a specialist in indium phosphide ("InP") and gallium arsenide ("GaAs") based chips for lasers and ITF Technologies Inc. ("ITF"), a company engaged in design, manufacturing and sales of high reliability optical components and modules for the telecom sector as well as high power devices and sub-assemblies for the industrial sector.

The "Diversify for Growth" strategy rolled out by the management back in 2012 has proven to be the catalyst for growth of various new businesses for the Group. This strategy has led to (i) the introduction of automation solutions for the E-cigarette industry; (ii) the launch of machine vision systems and sensors; and (iii) the offering of advanced industrial laser products by ITF Technologies. All of these products and services have performed exceptionally well in the past year, hence laying the groundwork for further penetration across a wider swath of the Industry 4.0 applications.

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

INDUSTRY AND BUSINESS REVIEW

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

Optical Networking Business

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

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

Automation, Sensing and Industrials Businesses

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

Machine vision business

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

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

Automation solutions for E-cigarette business

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

Industrial laser business

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

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

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

LiDAR business

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

Coating and new materials business

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

FINANCIAL REVIEW

Revenue

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

Optical Networking Business

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

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

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

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

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

Automation, Sensing and Industrials Businesses

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

Machine vision business

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

Automation solutions for E-cigarette business

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

Industrial laser business

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

LiDAR business

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

Coating and New Materials Business

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

Gross Profit and Gross Profit Margin

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

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

Other Gains

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

Selling and Marketing Costs

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

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

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

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

Research and Development Expenses

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

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

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

Administrative Expenses

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

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

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

Finance Income

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

Finance Expenses

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

Share of Result of a Joint Venture

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

Profit Before Tax and Profit Before Tax Margin

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

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

Income Tax Expenses

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

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

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

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

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

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

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

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

FUTURE PROSPECTS

Prospects

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

Optical Networking Business

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

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

Automation, Sensing and Industrials Businesses

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

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

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

Coating and New Materials Business

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

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

GROUP'S LIABILITY FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2017, the Group had cash and cash equivalents of approximately HKD302.9 million (31 December 2016: HKD169.3 million). The significant increase was due to placing of shares. The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

PLEDGE ON GROUP ASSETS

As at 30 June 2017, the Group had bank deposit of HKD315.8 million pledged to secure the bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the first half of 2017, the Group had committed to the expansion of existing plants and new plants to enhance its production capacity. As at 30 June 2017, the Group had contractual capital commitments of approximately HKD4.0 million (31 December 2016: HKD8.3 million). As of 31 December 2016, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

CAPITAL EXPENDITURE

For the first half of 2017, the Group's capital expenditure on property, plant and equipment consisted primarily of additions to building, plant and machinery, office equipment and construction in progress of approximately HKD87.7 million (30 June 2016: HKD46.8 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

EMPLOYEE BENEFIT

As at 30 June 2017, the Group had a total of 4,024 employees (30 June 2016: 3,078). The Group's staff costs (including Directors' fees) amounted to HKD215.0 million (30 June 2016: HKD175.2 million). The remuneration policy of the Group is reviewed annually by the Remuneration Committee of the Company and is in line with the prevailing market practice. The Group has provided its employees medical insurance, work-related personal injury insurance, maternity insurance, and unemployment insurance, each as required by Chinese laws and regulations.

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

A share option scheme, which was adopted 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 2017, no option was granted (30 June 2016: same).

The Company adopted a restricted share award scheme ("Award Scheme") on 9 May 2014 as an incentive to recognize the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Restricted shares under the Award Scheme will be comprised of shares of the Company subscribed for or purchased by the trustee out of cash arranged by the Company. For the first half of 2017, no restricted shares were purchased by the trustee from the market and no new shares were issued by the Company for the purpose of the Award Scheme (30 June 2016: same).

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

On 21 April 2017, O-Net Communications Holdings Limited ("O-Net Communications"), a wholly-owned subsidiary of the Company, entered into the formal sale and purchase agreement (the "Formal Agreement") with Advance Photonics Investments Limited (the "Vendor") in relation to the acquisition by O-Net Communications of the entire issued share capital of 3SP Technologies (the "Target Company") at a consideration of approximately US$19.2 million (the "Acquisition"). The completion of the Acquisition (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 light detection and ranging product (the "LiDAR") for advanced driving assistance system (the "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 2017.

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

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

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

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

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

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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 2017 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of share in, or debt securities, including debenture, of the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2017.

CORPORATE GOVERNANCE PRACTICES

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the six months ended 30 June 2017.

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

During the six months ended 30 June 2017, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviation as explained below:–

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

Save as mentioned above, in the opinion of the Directors, the Company has met the relevant code provisions set out in the CG Code during the six months ended 30 June 2017.

AUDIT COMMITTEE

The Company established an Audit Committee on 9 April 2010 with written terms of reference in compliance with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ong Chor Wei (as chairman), Mr. Deng Xinping and Mr. Zhao Wei. The primary duties of the Audit Committee are to review and supervise the financial reporting process and to review the risk management and internal control systems of the Group. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2017 before they are tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 22 August 2017

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