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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 2020

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 2020 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	
		2020	2019
	Note(s)	HKD'000	HKD'000
Revenue	4	1,491,212	1,403,363
Cost of sales		<u>(1,117,702)</u>	<u>(989,202)</u>
Gross profit		373,510	414,161
Other gains — net		18,382	22,096
Selling and marketing costs		(46,343)	(45,239)
Research and development expenses		(155,452)	(154,750)
Administrative expenses		<u>(133,336)</u>	<u>(113,004)</u>
Operating profit		56,761	123,264
Finance expenses — net	8	4,076	(15,355)
Share of losses of investments accounted for using equity method		<u>(940)</u>	<u>(4,615)</u>
Profit before income tax	7	59,897	103,294
Income tax expenses	9	<u>(16,772)</u>	<u>(23,003)</u>
Profit for the period		<u>43,125</u>	<u>80,291</u>
Profit attributable to:			
Equity holders of the Company		42,764	83,114
Non-controlling interests		<u>361</u>	<u>(2,823)</u>
		<u>43,125</u>	<u>80,291</u>
Earnings per share for profit attributable to equity holders of the Company			
(HKD per share)			
— Basic	11	0.05	0.10
— Diluted	11	<u>0.05</u>	<u>0.10</u>

CONDENSED CONSOLIDATED BALANCE SHEET

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

		As at 30 June 2020 (Unaudited) <i>HKD'000</i>	As at 31 December 2019 (Audited) <i>HKD'000</i>
	<i>Note(s)</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		1,092,912	1,073,359
Right-of-use assets		64,011	67,924
Intangible assets		247,150	247,147
Investments accounted for using equity method		46,561	47,501
Deferred income tax assets		286	1,296
Financial assets at fair value through other comprehensive income		10,022	15,185
Other non-current receivables	5	6,305	6,295
Other non-current assets		74,135	45,010
		1,541,382	1,503,717
Current assets			
Inventories		713,214	596,441
Contract assets		20,447	21,472
Trade and other receivables	5	1,128,443	876,588
Other current assets		2,207	3,498
Pledged bank deposits		11,234	10,718
Cash and cash equivalents		448,758	481,100
		2,324,303	1,989,817
Total assets		3,865,685	3,493,534

		As at 30 June 2020 (Unaudited) <i>HKD'000</i>	As at 31 December 2019 (Audited) <i>HKD'000</i>
	<i>Note(s)</i>		
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		8,340	8,269
Share premium		1,126,913	1,113,552
Treasury shares		(27,430)	(29,753)
Other reserves		(2,906)	14,467
Retained earnings		1,284,771	1,242,006
		<u>2,389,688</u>	<u>2,348,541</u>
Non-controlling interests		—	(10,564)
Total equity		<u><u>2,389,688</u></u>	<u><u>2,337,977</u></u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		22,054	17,917
Leased liabilities		32,019	37,511
Deferred government grants		13,789	13,083
Post-employment benefit obligations	6	10,389	10,267
		<u>78,251</u>	<u>78,778</u>
Current liabilities			
Trade and other payables	6	678,819	433,022
Contract liabilities		17,623	9,047
Leased liabilities		13,183	12,598
Current income tax liabilities		13,921	31,082
Borrowings		674,200	591,030
		<u>1,397,746</u>	<u>1,076,779</u>
Total liabilities		<u><u>1,475,997</u></u>	<u><u>1,155,557</u></u>
Total equity and liabilities		<u><u>3,865,685</u></u>	<u><u>3,493,534</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	(Unaudited)	
	For the six months ended 30 June	
	2020	2019
	<i>HKD'000</i>	<i>HKD'000</i>
Profit for the period	43,125	80,291
Other comprehensive expense		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	(26,959)	(6,693)
Release of fair value of equity investments at fair value through other comprehensive income	281	—
<i>Item that will not be reclassified to profit or loss</i>		
Changes in the fair value of equity investment at fair value through other comprehensive income	(4,622)	—
	<u>11,825</u>	<u>73,598</u>
Total comprehensive income for the period	11,825	73,598
Attributable to:		
Equity holders of the Company	11,464	76,421
Non-controlling interests	361	(2,823)
	<u>11,825</u>	<u>73,598</u>
Total comprehensive income for the period	11,825	73,598

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	(Unaudited)	
	For the six months	
	ended 30 June	
	2020	2019
	HKD'000	HKD'000
Net cash (used in)/from operating activities	(31,657)	139,489
Net cash used in investing activities	(103,893)	(16,558)
Net cash from financing activities	98,841	55,051
Net (decrease)/increase in cash and cash equivalents	(36,709)	177,982
Cash and cash equivalents at the beginning of the period	481,100	341,591
Exchange difference	4,367	878
Cash and cash equivalents at the end of the period	448,758	520,451

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 4 August 2020.

2. BASIS OF PREPARATION AND PRESENTATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 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 2019, 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. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements.

New and amended standards adopted by the Group

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs for the preparation of the Group's condensed consolidated financial statements.

		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform	1 January 2020

The application of the new and revised standards in the current interim period has had no material impact on the amounts reported in these condensed consolidated financial statements and/or disclosures set in these condensed consolidated financial statements.

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 revenues 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 of the reported revenues from sales of products were made to external customers for the six months ended 30 June 2020 and 2019.

- (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	
	2020	2019
	<i>HKD’000</i>	<i>HKD’000</i>
The PRC	713,584	429,121
Europe	261,555	385,653
North America	323,100	334,317
Other Asian countries excluding the PRC	192,973	254,272
	<u>1,491,212</u>	<u>1,403,363</u>

- (b) The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 30 June 2020 and 31 December 2019 are as follows:

	As at	
	30 June	31 December
	2020	2019
	<i>HKD’000</i>	<i>HKD’000</i>
The PRC	1,006,672	964,699
Europe	278,741	305,151
North America	145,957	153,644
Hong Kong	42,622	54,402
Others	10,699	3,045
	<u>1,484,691</u>	<u>1,480,941</u>

5. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2020 <i>HKD'000</i>	31 December 2019 <i>HKD'000</i>
Current Portion		
Trade receivables (a)	943,032	646,552
Less: provision for impairment of receivables	<u>(9,056)</u>	<u>(8,441)</u>
Trade receivables — net	933,976	638,111
Amounts due from related parties (a)	3,688	2,354
Bills receivable (b)	114,911	146,283
Prepayments	34,246	27,826
Other receivables	<u>41,622</u>	<u>62,014</u>
	<u>1,128,443</u>	<u>876,588</u>
Non-current portion		
Other receivables	<u>6,305</u>	<u>6,295</u>

- (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 2020 <i>HKD'000</i>	31 December 2019 <i>HKD'000</i>
Within 30 days	428,152	278,043
31 to 60 days	240,676	179,354
61 to 90 days	170,247	123,272
91 to 180 days	81,365	51,369
181 to 365 days	16,447	11,140
Over 365 days	<u>6,156</u>	<u>3,475</u>
	<u>943,043</u>	<u>646,653</u>

- (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 2020 <i>HKD'000</i>	31 December 2019 <i>HKD'000</i>
Within 30 days	56,318	32,614
31 to 90 days	44,137	62,721
91 to 180 days	13,208	50,380
181 to 365 days	1,248	568
	<u>114,911</u>	<u>146,283</u>

6. TRADE AND OTHER PAYABLES

	As at	
	30 June 2020 <i>HKD'000</i>	31 December 2019 <i>HKD'000</i>
Current portion		
Trade payables (a)	461,534	229,144
Bills payable (b)	62,280	55,758
Accrued expenses	11,237	16,134
Accrued staff cost	68,344	81,400
Other payable	75,424	50,586
	<u>678,819</u>	<u>433,022</u>
Non-current portion		
Post-employment benefit obligation	<u>10,389</u>	<u>10,267</u>

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

Trade payables

	As at	
	30 June 2020 <i>HKD'000</i>	31 December 2019 <i>HKD'000</i>
Within 30 days	285,732	139,888
31 to 60 days	104,674	42,717
61 to 180 days	56,477	20,977
181 to 365 days	4,866	11,583
Over 365 days	9,785	13,979
	<u>461,534</u>	<u>229,144</u>

- (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 2020 <i>HKD'000</i>	31 December 2019 <i>HKD'000</i>
Within 30 days	1,285	10,857
31 to 90 days	15,887	20,402
91 to 180 days	27,227	24,499
181 to 365 days	17,881	—
	<u>62,280</u>	<u>55,758</u>

7. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2020 <i>HKD'000</i>	2019 <i>HKD'000</i>
Staff costs — excluding share options and share awards granted to directors and employees	322,325	312,829
Share options and share awards granted to directors and employees	16,251	18,938
Subcontracting costs	118,585	—
Raw materials consumed	859,398	600,532
Changes in inventories of finished goods and work in progress	(83,337)	6,356
Depreciation of property, plant and equipment	62,534	54,343
Depreciation of rights-of-use assets	7,214	—
Amortisation	11,622	8,324
Provision for impairment of intangible asset	—	4,746
Provision for write-down of inventories	35,002	28,280

8. FINANCE EXPENSES — NET

	For the six months ended 30 June	
	2020 <i>HKD'000</i>	2019 <i>HKD'000</i>
Finance expenses		
— Bank borrowings	(15,542)	(15,136)
— Lease liabilities	(1,329)	(1,095)
— Net exchange loss	—	(955)
Total finance expenses	(16,871)	(17,186)
Finance income		
— Interest income derived from bank deposits	1,066	1,831
— Net exchange gain	19,881	—
Total finance income	20,947	1,831
Net finance expenses	4,076	(15,355)

9. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2020	2019
	HKD'000	HKD'000
Current income tax		
— Hong Kong profits tax (c)	5,256	9,663
— Canada profit tax (d)	2,232	4,472
— PRC enterprise income tax (e)	10,287	11,720
	<hr/>	<hr/>
Total current income tax	17,775	25,855
Deferred income tax	(1,003)	(2,852)
	<hr/>	<hr/>
Income tax expenses	<u>16,772</u>	<u>23,003</u>

- (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 26.6% and 26.5% respectively.
- (e) 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%.
- (f) The applicable tax rate for 3SP Technologies (“3SP”) is 31%.

10. DIVIDENDS

The directors of the Company resolved not to distribute any dividends for the six months ended 30 June 2020 (30 June 2019: 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	
	2020	2019
Profit attributable to equity holders of the Company for the six months (<i>HKD'000</i>)	<u>42,764</u>	<u>83,114</u>
Weighted average number of ordinary shares in issue (<i>thousands shares</i>)	<u>796,466</u>	<u>801,747</u>
Basic earnings per share (<i>HKD per share</i>)	<u>0.05</u>	<u>0.10</u>

(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	
	2020	2019
Profit attributable to equity holders of the Company for the six months (<i>HKD'000</i>)	<u>42,764</u>	<u>83,114</u>
Weighted average number of ordinary shares in issue (<i>thousands shares</i>)	796,466	801,747
Adjustments for exercise of share options and share awards (<i>thousands shares</i>)	<u>8,415</u>	<u>10,134</u>
Weighted average number of ordinary shares for the calculation of diluted earnings per share (<i>thousands shares</i>)	<u>804,881</u>	<u>811,881</u>
Diluted earnings per share (<i>HKD per share</i>)	<u>0.05</u>	<u>0.10</u>

12. SUBSEQUENT EVENT

On 8 July 2020, the Company issued an announcement jointly with Optical Beta Limited (the “Offeror”) (the “Joint Announcement”) in relation to the proposal of the Offeror to privatize the Company by way of a scheme of arrangement between the Company and the Scheme Shareholders (as defined in the Joint Announcement) under Section 86 of the Companies Law of the Cayman Islands (the “Proposed Privatisation”). The Scheme Shares (as defined in the Joint Announcement) held by the Disinterested Shareholders (as defined in the Joint Announcement) will be cancelled and extinguished on the Effective Date (as defined in the Joint Announcement) in exchange of a cancellation price of HKD6.50 in cash per Scheme Share. For details regarding the Proposed Privatisation, please refer to the Joint Announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

The macro-economy has faced ever-intensifying challenges and downside risks in the first half of 2020. Global markets are experiencing significant turmoil since the worldwide outbreak of the COVID-19 pandemic in February. The COVID-19 pandemic has inevitably impacted the technology sector, affecting the supply of raw materials, disrupting the electronics value chain, and causing an inflationary risk for products. The most direct impact of the COVID-19 pandemic has been delay in the shipments of orders, with the outbreak affecting many countries around the world, while its disruption and negative impact on the global economy and industry supply chains remains uncertain. The public health measures put in place in many countries to prevent the spread of the COVID-19 pandemic have disrupted the Group’s production causing the temporary suspension of operations in both of our own and our suppliers’ factories. Such polices as the lockdowns, quarantine, social distancing and other pandemic containment measures have inevitably reduced the Group’s production capacity and efficiency, and incurred incremental costs and exceptional expenses, contributing to the adverse material impact on both the operating and net profit of the first half of 2020.

During the first half of 2020, although the Group’s production and operations around the world were inevitably affected due to travel restrictions and city lockdowns implemented by many countries to prevent the spread of COVID-19, the Group has resumed its production and continued its research and development efforts during the period. During the first half of 2020, it has continued to develop products such as laser semiconductors for pump lasers and high-speed optical transceivers, as well as laser chips and optical components for Light Detection And Ranging (“LiDAR”) applications through 3SP Technologies (“3SP”), a specialist in indium phosphide- (“InP”) and gallium arsenide- (“GaAs”) based semiconductors 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 subassemblies for the industrial sector.

Besides the optical networking market for telecommunications applications, its traditional core business, the Group also actively expanded its business within other segments, including: (i) electronic cigarettes; (ii) machine vision; (iii) industrial fibre lasers; and (iv) LiDAR for emerging Advanced Driver Assistance Systems (“ADAS”) applications. In line with this strategic direction and its overall objective to enhance its leadership in the global technology industry, it will seize opportunities to realise synergies across its businesses and facilitate business growth.

Despite challenges faced by global technology companies related to international trade disputes, coupled with the outbreak of COVID-19 in the beginning of the year, the Group has managed to deliver stable business development, particularly in its core optical networking business, attributable to its solid foundation in the sector and strong R&D capabilities.

INDUSTRY AND BUSINESS REVIEW

Optical Networking Business

Despite the short term disruption due to the outbreak of COVID-19, the global optical components market remains resilient in preparing for the eventual deployment of the mobile 5G internet. The upgrade has seen both telecoms and datacoms operators making investments in (i) expanding across metro networks in the telecommunications sector; and (ii) data centre operators continuing to build new 400GbE data centres. In addition to increase in data speed, 5G operators have implemented more WDM and interleaver solutions to increase network bandwidth. The Group’s revenue of optical networking business for the reporting period outpaced the market rising 11.6%, reaching HKD1,336.3 million at the end of the first half of 2020 as compared with HKD1,197.8 million in the first half of 2019.

Industrial and Sensing Businesses

The Group’s diverse range of advanced technological platforms enable it to deliver products and services to customers across different industries, including i) electronic cigarettes; (ii) machine vision; (iii) the industrial laser business; (iv) the LiDAR business; and (v) consumer electronics. During the first half of 2020, the industrial and sensing businesses recorded a revenue of HKD154.9 million and gross profit of HKD31.9 million. The decrease was largely due to the weakness in the electronic cigarettes business and consumer electronics business.

Automation Solutions Business for E-cigarette

During the first half of the year, the Group continued to provide various automation solutions for the electronic cigarette manufacturing industry, maintaining its role as a leading automation solutions supplier. The Group's automation solutions business recorded a revenue of HKD41.6 million in the first half of 2020, declining 45.7% compared with the same period of 2019 mainly due to tighter restrictions around electronic cigarettes in many of the Group's key markets.

Machine Vision Business

The Group rolled out its first machine vision system five years ago and it has continued to invest in and expand its product offerings to cater for strong demand. In the first half of 2020, the machine vision system segment grew 12.4% over the same period of 2019, contributing HKD25.4 million in revenue to the industrial and sensing businesses primarily due to stronger demand in automation, coupled with the Group's early-mover advantage in the machine vision segment.

Industrial Laser Business

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

In view of the critical position of fibre lasers, the Group has successfully managed to tap the industrial laser industry becoming a leading supplier of ultra-reliable fibre-optic components, such as Fibre Bragg Grating (FBG) and high-power fused components and modules for fibre laser systems. The Group has a strong position in the industrial laser business and contributed satisfactory results during the first half of 2020. Revenue generated from the Industrial Laser Business was HKD81.0 million in the first half of 2020, representing an increase of 12.0% compared with the same period of 2019. The primary reason for this increase was the transition from 2kW to 6kW fibre laser platforms. Though some of the shipments were delayed into the second half of the year due to COVID-19, the Group expects a continued revenue contribution from this segment in the future.

LiDAR Business

The Group is also at the forefront of LiDAR, which is among the key solutions for making high-resolution images or maps used by Advanced Driving Assistance Systems (“ADAS”). The expected significant growth will be driven by the rise in automated and highly automated vehicles on the road in ten years’ time. To capitalise on such growth, the Group has set up a production line for the assembly of LiDAR, and its optical products for LiDAR. Furthermore, it is pursuing cooperation with major LiDAR players in order to secure additional customers. These combined efforts have helped to boost the Group’s position in this burgeoning business segment. As a result, the LiDAR segment has generated an increase of 5.0% as compared with the same period a year ago to HKD6.3 million in revenue for the industrial and sensing businesses in the first half of 2020.

Consumer Electronics Business

Due to weak demand and commoditised pricing in the consumer electronics business, revenue declined 97.8% from the same period a year ago to HKD0.6 million in the first half of 2020. This was mainly due to a slowdown in the smartphone replacement cycle and a weak pricing environment for smartphone coating services.

FINANCIAL REVIEW

Revenue

For the first half of 2020, the Group reported revenue of HKD1,491.2 million, representing an increase of HKD87.8 million, or 6.3%, compared with that of HKD1,403.4 million in the first half of 2019. The increase in revenue in the first half of 2020 was primarily attributable to the growth in revenue of optical networking business.

Optical Networking Business

The optical networking business recorded revenue of HKD1,336.3 million in the first half of 2020, representing an increase of HKD138.5 million, or 11.6% as compared with that of HKD1,197.8 million in the first half of 2019. The increase was primarily attributable to the growing demand for the optical networking products in both passive and active components.

Industrial and Sensing and Businesses

The industrial and sensing businesses recorded revenue of HKD154.9 million in the first half of 2020, representing a decrease of HKD50.7 million, or 24.7% as compared with that of HKD205.6 million in the first half of 2019, attributable to the net effect of (i) decrease of revenue in consumer electronics business and automation solutions business for E-cigarettes; and (ii) growth of revenue in the machine vision business and industrial laser business.

Machine vision business

Revenue of HKD25.4 million was recorded in the first half of 2020, representing an increase of HKD2.8 million, or 12.4% as compared with that of HKD22.6 million in the first half of 2019. The rise in revenue in the first half of 2020 was primarily attributable to stronger demand in automation, coupled with the Group's early-mover advantage in the machine vision segment.

Automation Solutions Business for E-cigarettes

Revenue of HKD41.6 million was recorded in the first half of 2020, representing a decline of HKD35.0 million, or 45.7% as compared with that of HKD76.6 million in the first half of 2019. The decline in revenue in the first half of 2020 was primarily due to tighter restrictions around electronic cigarettes in many of the Group's key markets.

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 2020, revenue from the industrial laser business of HKD81.0 million was recorded, representing an increase of HKD8.7 million, or 12.0% as compared with that of HKD72.3 million in the first half of 2019. The revenue increase was primarily due to the combined effect of (i) stronger demand because of transition from 2kW to 6kW fibre laser platforms; (ii) full period of consolidation of 3SP in the first half of 2020; (iii) decrease of revenue of ITF due to COVID-19.

LiDAR business

Revenue of HKD6.3 million was recorded in the first half of 2020, representing an increase of HKD0.3 million, or 5.0% as compared with that of HKD6.0 million in the first half of 2019 which was primary attributable to a higher demand of automated and highly automated vehicles.

Consumer Electronics Business

Revenue of HKD0.6 million was recorded in the first of 2020, representing a decrease of HKD27.5 million, or 97.8% as compared with that of HKD28.1 million in the first half of 2019 which was primarily due to a slowdown in the smartphone replacement cycle and a weak pricing environment for smartphone coating services.

Gross Profit and Gross Profit Margin

The gross profit in the first half of 2020 was HKD373.5 million, representing a decrease of HKD40.7 million, or 9.8%, from the gross profit of HKD414.2 million in the first half of 2019. The lower gross profit was primarily due to the decline in revenue and gross profit from industrial and sensing businesses, except for the machine vision business, of the Group.

As a percentage of total revenue, gross profit margin decreased to 25.0% in the first half of 2020 as compared with 29.5% in the first half of 2019. The decrease of gross profit margin was attributable to (i) the gross profit margin of optical networking business decreased to 25.6% in the first half of 2020 as compared with 28.1% in the first half of 2019; and (ii) the gross profit margin of industrial and sensing businesses decreased to 20.6% in the first half of 2020 as compared with 37.6% in the first half of 2019.

Other Gains

Other gains in the first half of 2020 decreased by HKD3.7 million to HKD18.4 million, from HKD22.1 million in the first half of 2019, which was due to the net effects of (i) loss on disposal of a subsidiary of HKD1.5 million in the first half of 2020; (ii) government grants increased by HKD1.4 million in the first half of 2020; and (iii) other miscellaneous gains decreased by HKD3.6 million.

Selling and Marketing Costs

Selling and marketing (“S&M”) costs in the first half of 2020 were HKD46.3 million, HKD1.1 million or 2.4% higher compared with HKD45.2 million in the first half of 2019. The rise in S&M costs were primarily attributable to the increase in the salary costs of HKD4.9 million which was partly offset by (i) decrease in share options/share awards expenses by HKD0.4 million; (ii) decrease in travelling and exhibition expenses by HKD1.5 million due to COVID-19; and (iii) decrease in sales commission of HKD1.7 million because of decreased sales via agents. S&M costs as a percentage of revenue decreased to 3.1% in the first half of 2020 as compared with 3.2% in the first half of 2019. The reason was mainly attributable to the higher revenue outweighing overall selling and marketing costs.

Salary costs in the first half of 2020 was HKD34.0 million, an increase of HKD4.9 million, or 16.8% compared with HKD29.1 million in the first half of 2019. This increase was primarily attributable to the combined effect of (i) the increase in salaries; and (ii) full period consolidation of 3SP in the first half of 2020.

Research and Development Expenses

Research and development (“R&D”) expenses in the first half of 2020 were HKD155.5 million, HKD0.7 million or 0.5% higher compared with HKD154.8 million in the first half of 2019. The rise in R&D expenses was mainly due to the net effect of (i) the increase in salary costs of HKD12.3 million for the R&D engineers; (ii) decrease of impairment loss of intangible assets of HKD4.7 million; and (iii) decrease of HKD1.6 million due to change of classification of amortisation of intangible assets; (iv) decrease of various R&D expenses of HKD5.1 million due to disposal of a subsidiary in the first half of 2020; (v) decrease in share options/share awards expenses of HKD2.2 million; and (vi) increase of other miscellaneous R&D expenses of HKD0.6 million. R&D expenses as a percentage of revenue decreased to 10.4% in the first half of 2020 as compared with 11.0% in the first half of 2019. The reason was mainly attributable to the higher revenue outweighing overall R&D expenses.

The salary costs for R&D engineers was HKD92.3 million in the first half of 2020, representing an increase of HKD12.3 million, or 15.4% as compared with HKD80.0 million in the first half of 2019. The increase was primarily attributable to the combined effect of (i) the increase in hiring of R&D engineers; (ii) higher salaries.

In the first half of 2019, impairment loss of intangible assets of HKD4.7 million was provided due to the unexpected decline in demand for certain active optical products. There was no such impairment loss in the first half of 2020.

To have a better classification, the amortisation of intangible assets arising from the acquisition of 3SP was reclassified in the administrative expenses, resulting amortisation of intangible assets decreased by HKD1.6 million in the first half of 2020.

Administrative Expenses

Administrative expenses in the first half of 2020 were HKD133.3 million, HKD20.3 million or 18.0% higher as compared with HKD113.0 million in the first half of 2019. The increase of administrative expenses in the first half of 2020 was primarily attributable to (i) the increase of the salary costs; (ii) amortisation of intangible assets of HKD3.2 million; and (iii) increase in overall administrative expenses. Administrative expenses as a percentage of revenue increased to 8.9% in the first half of 2020 as compared with 8.1% in the first half of 2019. The reason was mainly attributable to (i) full period consolidation of 3SP in the first half of 2020; and (ii) the higher overall administrative expenses outweighing the revenue.

For the first half of 2020, the salary costs was HKD71.5 million, representing an increase of HKD9.7 million, or 15.7% as compared with HKD61.8 million for the first half of 2019. The increase was primarily attributable to (i) an increment in salaries, (ii) hiring of new staff; and (iii) full period consolidation of 3SP in the first half of 2020.

To have a better classification, the amortisation of intangible assets arising from the acquisition of 3SP was reclassified in the administrative expenses, resulting amortisation of intangible assets increased by HKD3.2 million in the first half of 2020.

The other administrative expenses rose in line with the scale of the Group and full period consolidation of 3SP in the first half of 2020 such as utilities, office supplies, legal and professional fee.

Finance Expenses/Income

Finance income in the first half of 2020 amounted to HKD20.9 million, representing an increase of HKD19.1 million, compared with HKD1.8 million in the first half of 2019. The increase in finance income was primarily due to the net effect of (i) the impact of the stronger USD (for entities within the Group using RMB as functional currency) on net effect of sales transactions and balances, the foreign exchange gain was HKD19.8 million in the first half of 2020 as compared with foreign exchange loss of HKD1.0 million in the first half of 2019; and (ii) the decrease in interest income of HKD0.7 million.

Finance expenses in the first half of 2020 amounted to HKD16.9 million, which was stable as compared with HKD17.2 million in the first half of 2019.

Share of Losses of Investments Accounted for Using Equity Method

Share of losses of associates was HKD0.9 million for the first half of 2020 as compared with HKD2.3 million for the first half of 2019.

Share of loss of a joint venture was HKD2.3 million for the first half of 2019. There was no such share of loss of a joint venture for the first half of 2020.

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 2020 amounted to HKD16.8 million, representing a decrease of HKD6.2 million or 27.0% from the income tax expenses of HKD23.0 million in the first half of 2019. The drop in income tax expenses was primarily due to the drop in the profit before tax for the Group.

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	
	2020	2019
	HKD'000	<i>HKD'000</i>
Adjustment to Measure Non-GAAP Gross Profit		
Gross Profit	373,510	414,161
Adjustment Related to Cost of Sales		
Provision for inventory write-down	35,002	28,280
Non-GAAP Gross Profit	408,512	442,441
Adjustment to Measure Non-GAAP Net Profit*		
Net Profit*	42,764	83,114
Adjustment Related to Cost of Sales		
Provision for inventory write-down	35,002	28,280
Adjustments to Measure to Operating expenses		
Share options and share awards granted to directors and employees	16,251	18,938
Amortisation of intangible assets	11,622	8,324
Provision for impairment of intangible asset	—	4,746
Adjustments to Other Gains — net		
Release of fair value of equity investment at fair value through other comprehensive income	281	—
Loss on disposal of a subsidiary	1,457	—
Non-GAAP Net Profit*	107,377	143,402
Non-GAAP EPS		
— Basic	0.13	0.18
— Diluted	0.13	0.18
Gross Profit Margin	25.0%	29.5%
Non-GAAP Gross Profit Margin	27.4%	31.5%
Net Profit* Margin	2.9%	5.9%
Non-GAAP Net Profit* Margin	7.2%	10.2%

* Profit attributable to equity holders of the Company

FUTURE PROSPECTS

Due to the uncertainty caused by the COVID-19 pandemic and the ongoing trade tension between China and the United States, the Group remains cautious in its outlook across all of its business areas including optical networking and industrial and sensing segments. In the first half of 2020, certain key customers in China have encountered increasingly hawkish trade policies that may adversely impact its own long-term growth trajectory. The Company's overseas markets are also susceptible to similar trade tensions depending on the future evolution of China US dynamics in trade as well as other aspects. In optical networking, the Group will continue to develop and manufacture innovative products to seize opportunities in the fast-evolving optical components market, propelled in particular by the deployment of 5G networks. In its new businesses, the Group expects its various segments will steadily grow to become significant contributors, driven by the ramp-up of smart factories and emerging applications such as ADAS and electronic cigarettes.

Despite the challenging environment, the Group has made progress in most of its business activities, thus bringing it closer to the realisation of its vision of becoming a high technology leader with a solid foundation for future technological innovation. Nonetheless, it recognises that much work still needs to be done to sustain its success. The Group will endeavour to seize fresh opportunities that further enhance the value of its products, bolster its market position, maintain growth and deliver favourable returns to its shareholders.

GROUP'S LIABILITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Company's issued share capital was approximately HKD8.3 million divided into 834,028,240 shares of HKD0.01 each, and the total equity of the Group was approximately HKD2,389.7 million (31 December 2019: HKD2,338.0 million). The Group had current assets of HKD2,324.3 million and current liabilities of HKD1,397.7 million and the current ratio was 1.66 times as at 30 June 2020 (31 December 2019: 1.85 times). The Group's gearing ratio (calculated as total borrowings over total equity) was 28.2% at 30 June 2020 (31 December 2019: 25.3%)

As at 30 June 2020, the Group had cash and cash equivalents of approximately HKD448.8 million (31 December 2019: HKD481.1 million). The decrease was mainly due to the combined effects of (i) increase of working capital; (ii) capital expenditure; and (iii) 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 2020, the Group had bank deposits of HKD11.2 million (31 December 2019: HKD10.7 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 2020, the Group had contractual capital commitments of approximately HKD63.2 million (31 December 2019: HKD33.6 million). As of 30 June 2020, 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 2020, 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 HKD141.9 million (30 June 2019: HKD97.4 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 RMB and 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 2020, the Group had a total of 3,043 employees (30 June 2019: 5,794). The Group's staff costs (including Directors' fees) amounted to HKD338.6 million (six-month period ended 30 June 2019: HKD331.8 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 2020, no option was granted (six-month period ended 30 June 2019: same). The Post-IPO Share Option Scheme was terminated upon the expiry of its term on 9 April 2020.

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 2020, 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 (six-month period ended 30 June 2019: Nil).

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 2020 (six-month period ended 30 June 2019: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITION

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 2020.

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

As at 30 June 2020, the Group maintained sufficient funds for the capital investment and operations in the coming year.

MATERIAL EVENT SINCE THE END OF THE FINANCIAL PERIOD

As disclosed in the joint announcement issued by the Company and Optical Beta Limited (the “Offeror”) dated 8 July 2020 (the “Joint Announcement”), the Offeror requested the Board to put forward to the Scheme Shareholders (as defined in the Joint Announcement) the proposal (the “Proposal”) for the proposed privatisation of the Company by the Offeror by way of a scheme of arrangement under Section 86 of the Companies Law of the Cayman Islands (the “Scheme”). The Scheme Shares (as defined in the Joint Announcement) held by the Disinterested Shareholders (as defined in the Joint Announcement) will be cancelled and extinguished on the Effective Date (as defined in the Joint Announcement) in exchange for the payment of the cancellation price of HKD6.50 in cash for each Scheme Share. The implementation of the Proposal and the Scheme are subject to fulfillment and/or waiver (as applicable) of certain conditions as set out in the Joint Announcement. Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the Company will make an application for the listing of the shares of the Company to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect after the Effective Date. The Offeror is owned as to approximately 82.21% by Optical Alpha Limited (a company which is held as to 73.54% by Mr. Na and his related shareholders, including 3.16% by Mandarin Assets Limited, 56.90% by O-Net Holdings (BVI) Limited and 13.48% by O-Net Share Award Plan Limited) and 26.46% by LVC Technology Legend Limited) and 17.79% by Kaifa Technology (H.K.) Limited. For further details of the Scheme and the Proposal, please refer to the Joint Announcement, and the announcements jointly issued by the Company and the Offeror dated 14 July 2020, 24 July 2020 and 28 July 2020.

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 2020 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, 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 2020.

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 2020.

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 2020, 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 2020.

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 2020 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, 4 August 2020

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.